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LACKING SEVERAL ISSUES

Economic Council of Canada

Conseil économique du Canada

news release/communiqué

FOR IMMEDIATE RELEASE
January 28, 1974

The Chairman of the Economic Council of Canada, André Raynauld, today expressed satisfaction that the Federal-Provincial Conference of Finance Ministers last week considered the recommendation in the Council's Tenth Annual Review "that the Federal and Provincial governments establish, for themselves and for the public sector as a whole, one or more indicators of the desirable level of increase in public expenditures for a three year period."

After discussion, the Conference agreed that a continuing committee of officials study the various possibilities of setting up one or more indicators related to the desirable growth of public expenditures over a three year period and report on these matters to the governments concerned in the near future.

The Chairman indicated that the Economic Council of Canada would co-operate fully in support of this endeavour.

Economic Council of Canada

Conseil économique du Canada

news release/communiqué

POUR PUBLICATION IMMEDIATE
le 28 janvier 1974

Le président du Conseil économique du Canada, M. André Raynauld, s'est dit heureux aujourd'hui que les participants de la Conférence fédérale-provinciale des ministres des Finances de la semaine dernière aient étudié la recommandation contenue dans le Dixième Exposé annuel du Conseil "que les gouvernements fédéral et provinciaux fixent, pour eux-mêmes et pour l'ensemble du secteur public, un ou des indicateurs se rapportant à la progression souhaitable des dépenses publiques pour une période de trois années".

Après délibération, les participants à la Conférence ont convenu qu'un comité permanent de hauts fonctionnaires étudie les diverses possibilités de formuler un ou des indicateurs se rapportant à la progression souhaitable des dépenses publiques au cours des trois prochaines années et de présenter, à ce sujet, un rapport aux gouvernements concernés dans un proche avenir.

Le président signale que le Conseil économique du Canada apportera toute sa collaboration à l'appui de cette tentative.

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Economic Council of Canada

Conseil économique du Canada

Government Publications

news release/communiqué

FOR IMMEDIATE RELEASE
February 6, 1974

Dr. W. E. Haviland Appointed Secretary, Economic Council of Canada

The Chairman, Dr. André Raynauld, announced today the appointment of Dr. William Edward Haviland as Secretary of the Economic Council, effective February 1, 1974. In addition to his other duties as Secretary, Dr. Haviland will be responsible for the Council's press relations, Dr. Raynauld said.

Dr. Haviland has served as a senior research officer of the Economic Council for five years, most recently as Director of the special Reference on Cyclical Instability in Construction. Prior to coming to the Council, he was Manager, Economics and Statistics Division of the Canadian Pulp and Paper Association in Montreal. Previously, he worked for three Royal Commissions, including the Royal Commission on Canada's Economic Prospects. He was an Associate Professor at McGill University from 1953 to 1958.

William Haviland was born at Kirkland Lake, Ontario, and was educated there and at McMaster, Toronto, Harvard (Ph.D. Economics) and Oxford Universities. He is the author of various articles and books, and has travelled extensively in Latin America, Europe, Africa, and India.

Economic Council of Canada

Conseil économique du Canada

news release/communiqué

FOR IMMEDIATE RELEASE
April 9, 1974
9:00 a.m. (EST)

Canada, like many other countries, has long had an industrial policy or "strategy", but the meaning and conceptual basis of it are far from obvious. The conceptual foundations of a socially advantageous industrial strategy are analysed in a study released today by the Economic Council of Canada.* The author, Professor Albert Breton, of the University of Toronto, warns that there is a real danger that other arguments justifying an industrial strategy may stem from "hidden special private interests".

Breton defines "industrial strategy" as an attempt to narrow the gap assumed to exist between the actual output of industrial goods and the best level from a social point of view. The author analyses six factors that could give rise to such a gap -- "externalities", risk, monopoly, past government intervention, nationalism, and neomercantilism.

The author explains that once full employment of resources is assumed, an industrial strategy is also indirectly

*Albert Breton, A Conceptual Basis for an Industrial Strategy, published by the Economic Council of Canada (Ottawa, Information Canada, EC22-2074, $1.50), 1974, pp. 24.

a strategy for nonindustrial sectors of the economy such as agriculture or services. The reason is that, under these conditions, it is never possible to increase the size of one sector without reducing that of another.

Professor Breton emphasizes that we cannot have a blanket industrial strategy that is unrelated to the causes of the gap between actual and desired levels of industrial output. If, for example, the gap stems from externalities (and this would have to be established by careful study), the best solution would be to subsidize the activities that generate the external economies. Or if the source of the gap is uninsurable risk, the best policy would be for the government to share in losses from risky ventures by means of a system of subsidization. If, however, the source of the gap is monopoly, the remedy may be to dismantle the monopoly, or regulate it, or nationalize it, depending on the exact origin of the monopolization.

In more general terms, according to the Breton study, the socially best industrial strategy would be one of economizing on all resources, including those used for the purpose of government intervention. Although intervention in the form of subsidizing industrial activities that are deserving of encouragement usually ranks high on purely economic grounds, the application of a framework of subsidies tends to shift through time from private decision-making, in response to general rules, to bureaucratic determination of production details by government departments or agencies.

Economic Council of Canada

Conseil économique du Canada

news release/communiqué

POUR PUBLICATION IMMÉDIATE
le 9 avril 1974
9 h a.m. (HNE)

Comme beaucoup d'autres pays, le Canada a depuis longtemps une politique ou "stratégie" industrielle dont, cependant, la signification et le fondement théorique sont loin d'être évidents. Les concepts fondamentaux d'une stratégie industrielle socialement souhaitable font justement l'objet d'une étude publiée aujourd'hui par le Conseil économique du Canada*. L'auteur, professeur à l'Université de Toronto, estime que ces principes théoriques étant posés et analysés méthodiquement, les autres arguments invoqués pour justifier une stratégie industrielle pourraient être le reflet de "quelque intérêt privé caché".

M. Breton définit une "stratégie industrielle" comme une tentative de réduire l'écart que l'on suppose exister entre la production réelle de produits industriels et le niveau optimal du point de vue social. Il analyse six facteurs possibles de cet écart: les "externalités", le risque, le monopole, l'intervention passée de l'État, le nationalisme et le néomercantilisme.

*Albert Breton, Le fondement théorique d'une stratégie industrielle, étude publiée par le Conseil économique du Canada, Ottawa, Information Canada, EC-22-2074F, $1.50, 1974, 26 pages.

L'auteur explique qu'une fois supposé le plein emploi des ressources, une stratégie industrielle devient aussi indirectement une stratégie applicable aux secteurs non industriels de l'économie, comme l'agriculture ou les services. Cela tient au fait que, dans ces conditions, il n'est jamais possible de développer un secteur sans réduire la taille d'un autre.

Le professeur Breton souligne qu'il est impossible de concevoir une stratégie industrielle globale qui ne tiendrait pas compte des causes de l'écart entre le niveau réel et le niveau souhaité de la production industrielle. Si, par exemple, l'écart résulte d'externalités (ce qu'il faudrait prouver par une analyse minutieuse), la meilleure solution est alors de subventionner les activités qui produisent ces économies externes. Si, d'autre part, l'écart découle de risques non assurables, la meilleure politique, pour le gouvernement, est d'assumer une partie des pertes des entreprises risquées en les subventionnant. Enfin, si un monopole est la cause de l'écart, le correctif consiste alors à le supprimer, à le réglementer ou à le nationaliser, selon l'origine exacte du monopole.

De façon générale, selon M. Breton, la stratégie industrielle la meilleure au point de vue social doit permettre d'économiser sur toutes les ressources, y compris celles auxquelles l'État fait appel pour ses interventions dans l'économie. Bien qu'une politique comme le subventionnement des activités industrielles qui méritent d'être encouragées soit certainement fort valable pour des raisons purement économiques, l'application

d'un système de subventions a tendance, à la longue, à faire passer en général la prise des décisions du secteur privé au secteur public, sous la forme d'une détermination bureaucratique des détails de la production par les ministères et les organismes gouvernementaux.

Economic Council of Canada

Conseil économique du Canada

news release/communiqué

FOR RELEASE
26 November 1974
9:00 a.m. (EST)

ELEVENTH ANNUAL REVIEW -- Health

OTTAWA -- The Economic Council of Canada, in its Eleventh Annual Review, uses figures on life expectancy, infant mortality, and prime-age mortality in a first attempt to establish indicators of the health of Canadians (p. 89).

Life expectancy nationally was 71.4 years for males and 77.3 years for females in 1971, up from 70.2 and 74.9 years in 1961. The figures exclude the effects of accidental and violent deaths because the study is concerned with deaths resulting from ill-health (p. 91).

The figures showed considerable variation from province to province. People in Saskatchewan had the highest life expectancy -- 73.3 years for men and 78.4 years for women -- those in Quebec had the lowest -- 70.3 years for men, 76.2 years for women (p. 91).

Certain environmental factors and differences in social mores may be factors in the regional variations, and biological and life-style differences probably play a part in the expectancy gap between the sexes, the Council says (p. 90).

The Council study describes infant mortality as a "serious problem". The Canadian rate of 17.5 deaths per 1,000 live births was better than that in the United States, at 19.2, but tied for 12th position with England and Wales in a 1970-71 ranking of 14 developed countries. Canada trailed such nations as Sweden, the Netherlands, Japan, France and Australia (p. 94).

Making a projection to 1985 on the assumption that past trends will continue, the Council says the number of Canadian infant deaths per 1,000 live births should be down to 10.1 (excluding accidental and violent deaths), a rate "about the same as that already achieved by Sweden and Norway in 1971" (p. 98).

There were about 40,000 deaths, excluding accidental and violent deaths, among the Canadian population aged 35 to 64 in 1972, the Council says. "The economic and social importance of this phenomenon is considerable, as it reduces the number of experienced and productive people contributing to the functioning of our society" (p. 101).

The two most important causes of this prime-age mortality are diseases of the circulatory system, and cancer and related diseases. The total prime-age mortality rate decreased by only about 16 per cent in the period from 1951 to 1972, the Council says. The rate of decrease for women far outstripped that for men, dropping about 28 per cent compared with 7 per cent for males. "This differential is one of the underlying factors associated with the growing discrepancy in life expectancy between the sexes" (p. 101).

Economic Council of Canada

Conseil économique du Canada

news release/communiqué

FOR RELEASE
November 26, 1974
9:00 a.m. (EST)

ELEVENTH ANNUAL REVIEW -- Housing

OTTAWA -- Although housing quality in Canada ranks amongst the best in the world, more than 21 per cent (1.3 million) of Canadian households in 1971 still had one or more persons per room in spite of considerable improvements since 1961, a study by the Economic Council of Canada shows.

In its Eleventh Annual Review, the Council developed a crowding index as a first step in measuring housing quality across the nation.

The national average showed .64 persons per room in 1971, down from .74 persons in 1961. But there were considerable regional differences. Ontario had the lowest index with .60 persons per room and British Columbia was next with .61. The index for the Prairie Region was .63, the Atlantic Region .69, and Quebec .70. However, the disparities between regions have decreased since 1961 (pp. 76-78).

The Council regards a crowding index of one or more persons per room as too high. For a family of four, it would mean living in a dwelling with at most four rooms: a kitchen, living room, and two bedrooms -- one for the parents and one for two children (p. 78).

Nationally, 21.4 per cent of Canadian dwellings had one or more persons per room in 1971. Regionally, 17.0 per cent of the dwellings in Ontario were overcrowded; similarly, 18.2 per cent in British Columbia, 20.9 per cent in the Prairie Region, 27.1 per cent in Quebec, and 27.7 per cent in the Atlantic Provinces were overcrowded (p. 79).

The Review noted "striking intercity differences in the percentage of households have one or more persons per room," ranging from 34.0 per cent for Sudbury, highest in the survey of 21 major urban areas, down to 12.4 per cent for London and 11.5 per cent for Victoria (p. 81).

The Council set average annual rent or value per room, as a percentage of average total household income, as a second indicator of housing quality. Measured for 23 cities in 1971, the indicator was 4.2 per cent compared with 3.7 per cent in 1961 (p. 84).

This results from the fact that average rent or value per room increased about 85 per cent during the decade, while average total household income increased only about 62 per cent. This is partly explained by the "undoubling" of households between

1961 and 1971, leading to a larger proportion of small households containing young people and older people -- to the groups having lower incomes, on average. Given conditions in the housing market since 1971, the gap has probably widened even more, the Council notes (p. 86).

Notable regional differences also appeared using this indicator, the Review said. The percentage of income spent per room in 1971 ranged from highs of 5.4 per cent in Victoria and 5.2 per cent in Vancouver down to 3.3 per cent in Saint John and 3.4 per cent in Trois-Rivières (p. 84).

The Council concluded that the crowding index has shown an improvement in the 1961-71 decade "not only in absolute terms but also in relative terms, between certain regions and with respect to some socio-economic characteristics. On the other hand, the second indicator -- the cost per room relative to income -- has increased over this period. In addition, there are certain distributional problems with respect to both indicators" (p. 88).

Economic Council of Canada

Conseil économique du Canada

news release/communiqué

FOR RELEASE
26 November 1974
9:00 a.m. (EST)

ELEVENTH ANNUAL REVIEW -- Air

OTTAWA -- Montreal, Windsor, and Hamilton, in that order, had the worst air quality in the years 1971 to 1973 among 11 Canadian cities studied by the Economic Council of Canada. Edmonton had the best quality, followed by Calgary, Sudbury, and London.

In its Eleventh Annual Review, the Council established an air quality measurement system as an initial step in its attempt to rate the factors that affect the quality of life in Canada.

The Council rating scale measures total oxidants, nitrogen oxides, carbon monoxide, sulphur dioxide, and particulate matter, and then takes into account the severity effect of the various pollutants found (p. 102).

The 11 cities studied contain nearly 60 per cent of the total Canadian population living in centres of 10,000 population or more in 1971. The study ranked them this way, on average, for the three years from 1971 to 1973: Edmonton 9.9 pollution impact units per capita; Calgary 11.2; Sudbury 11.4; London 12.1; Ottawa-Hull 14.6; Cornwall 16.4; Toronto 17.3; Sarnia 18.4; Hamilton 21.6; Windsor 22.3; and Montreal 23.4 (pp. 102-3).

Between 1971 and 1973, the pollution index decreased for every city except Calgary. The largest decreases were in Sudbury, down 58 per cent, and in Cornwall, down 51 per cent. London, Windsor, Hamilton, and Sarnia also showed decreases ranging between 20 and 30 per cent (p. 103).

The Council says more information, from a greater number of cities, is needed to give a more accurate picture of air quality in Canada. It also notes that too little is known about the relative severity of certain pollutants (pp. 105 and 107). But the indicator does give "a basis for comparing urban areas, the relative impact of certain important pollutants, and the trends in urban air quality over time. When linked appropriately with emission inventories and costs of abatement, it will also provide a framework for formulating policies and priorities for action with some idea of the trade-offs involved" (p. 107).

Economic Council of Canada

Conseil économique du Canada

news release/communiqué

FOR RELEASE
November 26, 1974
9:00 a.m. (EST)

ELEVENTH ANNUAL REVIEW -- Social Indicators

OTTAWA -- The Economic Council of Canada's Eleventh Annual Review, for the first time, has selected indicators of housing, health, and air quality as a step towards measuring the quality of Canadian life.

But the Review recognizes these measures as just the beginning and suggests a number of areas for which data will have to be compiled if Canada is to work towards some form of "social accounting" (p. 7).

Individual needs or goals range from the most basic, such as simple survival, to the complex, such as self-realization, the Council says. They could be restated as two basic goals -- well-being and equity -- and all subsidiary objectives contribute to their attainment (p. 8).

The extent to which the material, socio-cultural, and psychological needs of society are met determines the degree of well-being. The appropriate distribution of well-being among all members of society determines equity (p. 8).

The Council suggests that the following nine major areas include most of our socio-economic concerns (pp. 9-10):

1. Individual rights and responsibilities, covering legal rights, security of life and property, and participation in public decision-making.

2. Social rights and national identity, covering group rights and such international relations as defence.

3. Health.

4. Command over knowledge and skills, including education and other training, artistic creativity, research and development, and information networks.

5. The natural environment.

6. The man-made environment, both social (including leisure) and physical (including housing, land use, and transportation).

7. Employment, including the labour market, labour-management relations, job security and satisfaction, and occupational mobility.

8. Production and consumption of final goods and services.

9. Financial status.

Although the first six areas are considered to be mostly social and the last three mostly economic, they overlap and should be taken as parts of the same system, the Council says. For example, unemployment is of major economic importance. But it can also bring harsh social consequences (p. 10).

Establishing social indicators and objectives will be more difficult in some areas than others, the Review says. For example, there would be little argument that the hoped-for goal in health is a healthy society. But, in such areas as individual rights and responsibilities, the desired end result is not as clear-cut (p. 12).

There would also have to be qualitative or subjective indicators. These would include how individuals or groups in society viewed the state of one of the areas of concern and whether they thought society was moving towards or away from what they hoped to see achieved in that area. Attitudinal surveys and psychological studies would be needed to assess this (pp. 12-13).

The Council says such qualitative indicators can help determine the public's attitudes and aspirations and establish the appropriate trade-offs, in the public's viewpoint, between conflicting objectives. Because its work is basically quantitative in nature, the Council initially stuck to the housing, health, and air quality indicators where judgments on the 'right' direction that change ought to take appear "relatively uncontroversial" (p. 13).

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FOR RELEASE
November 26, 1974
9:00 a.m. (EST)

ELEVENTH ANNUAL REVIEW -- Indexation

OTTAWA -- Indexation does not remove the causes of inflation, but it can help compensate people for their losses in purchasing power resulting from rising prices. It is important, however, to keep the indexation schemes simple, with everyone using the same inflation index.

With these reservations -- plus some questions and suggestions -- the Economic Council of Canada in its Eleventh Annual Review, published today, credits indexation with some apparent advantages, while noting that very little is known about the real consequences of such schemes.

At present, about 90 per cent of all federal transfer payments to individuals are indexed. However, most provincial and municipal transfers outside Quebec are not and, at the start of this year, only about 10 per cent of all collective agreements recorded with the federal Labour Department had an indexing feature in the form of cost-of-living allowances.

Examples of federal indexation programs are old-age pensions and personal income tax brackets and exemptions, which are linked to the rise in the Consumer Price Index.

Questions have been raised about the use of the CPI as the basis for indexation. Since it is based on the expenditure patterns of urban families whose 1967 incomes were in the $4,000-to-$12,000 range, does it reflect accurately the impact of price increases on other groups -- for example, retired people and those with low incomes?

In a study of this situation, the Council found that although lower-income families spend relatively more of their money on food, there is less difference in the impact of inflation on different income groups than the recent sharp rises in food prices might have suggested. This argues against the use of a multiplicity of indexes for income-indexation programs, the Council said; one general price index should be used by all.

"We would recommend that a single reference index be used wherever indexation is accepted. If certain other objectives are not achieved under a single system of indexation, other remedial policies can be sought" (p. 59).

The Council emphasized that the objective of indexation is to compensate people for the loss in purchasing power caused by inflation. The notion that indexation strives to protect the initial real standard of living of each individual is wrong, the Review said.

"Even a highly complex system of special indexes for particular groups would still give rise to anomalies and imperfections if the objective were to prevent each individual's initial real income from changing as a result of price variations" (p. 174).

There are other possibilities for the application of indexation, the Council noted, including some in use abroad. Although the Council's examinations of various proposals in this field have not yet been completed, its Review mentioned two areas that may need attention:

1. It may be possible to provide further incentives to personal savings, since, in the present inflationary environment, a high premium is given to consumption against saving.

2. In view of the country's need for investment capital in the years ahead, it might be possible to achieve a kind of corporate indexation by amending existing tax rules, such as those concerning the historical-cost basis of capital allowances and inventory valuations. These could be alternatives to acceleration of existing capital allowances, and reductions in the corporation income tax rate.

Economic Council of Canada

Conseil économique du Canada

news release/communiqué

FOR RELEASE
November 26, 1974
9:00 a.m. (EST)

ELEVENTH ANNUAL REVIEW -- Trade and the World Economy

OTTAWA -- Because Canada exports many goods that are in short supply and imports relatively few, the Canadian trade balance gained from worldwide inflation in 1973, the Economic Council of Canada says in its Eleventh Annual Review (p. 149).

Looking at the past record and the probable future for Canadian trade, the Council expects a somewhat sluggish performance for Canadian exports in 1974 and 1975 because the economies of the foreign countries that buy from Canada have been hard hit by such things as soaring oil prices. It says the volume of Canadian exports should pick up in 1976 and 1977 (p. 155).

World inflation is as much in evidence in 1974 as it was in 1973, the Council says, because the surge in oil prices started late in 1973 and will make a greater contribution to inflation in 1974 (p. 151). But the rate of price increases should soon start to taper off (p. 153).

"Apart from the belief that oil prices soared to unsustainable levels in the early part of 1974, these expectations are founded on the view that supply will respond (albeit with lags) to high price levels, while users will increasingly economize on the

consumption of high-priced products. Further, slower growth of demand should produce some retardation in rates of price increase" (p. 153).

The oil price crisis of 1973 came on top of poor farm and fishery harvests in 1972, the Review notes. The 1973 harvests of food, feed, and fish were inadequate to overcome the 1972 deficiencies, and stocks of key commodities such as grain fell to dangerously low levels. "The low supply and high price of crude oil during the winter of 1973-74 compounded the problems of attempting to increase farm production in 1974, since oil products are ingredients in many fertilizers and modern agriculture is mechanized" (p. 144).

Most industrial countries face severe balance-of-payments problems because of the oil price situation. Canada, because of relative self-sufficiency in oil, is an exception (p. 146).

The strength of Canada's balance-of-payments position has contributed to appreciation of the Canadian dollar against other currencies since the end of 1973, the Council says. This tended to make the exporting of price-sensitive products more difficult for Canada in the short run (p. 150).

The size of prospective investments needed for Canada's resource industries will tend to sustain or raise the Canadian dollar further, the Review says, but it would be wrong to attempt to fix the exchange rate at a level below what market forces produce. This might invite retaliation from Canada's trade partners and would tend to increase inflationary pressures within Canada (p. 150).

Moderate growth is in prospect for Canada in 1974, compared with other countries, the Review says. To 1977, increases in both the value and volume of imports will likely remain at high levels and, because of high prices, the value of exports should also be sustained during the period of slow external economic growth and should pick up after that (p. 156).

Canadian grain exports, hampered by transport problems in 1973 (p. 148), are unlikely to be increased in 1974. The prospect to 1977 is for grain exports to remain at about the 1972 level unless transport facilities are improved and future crop levels show substantial expansion (p. 156).

The volume of Canadian oil exports could be expected to drop in the years to 1977 with supplies from Western Canada diverted to supply Canadian oil to the Eastern Canadian market. "Increased exports of other commodities will, in many cases, require prior investment in new equipment and transportation," the Council concludes (p. 156).

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November 26, 1974
9:00 a.m. (EST)

ELEVENTH ANNUAL REVIEW -- Energy

OTTAWA -- Without discovery of new and easily exploitable reserves or development of new energy sources to replace declining oil production, Canada probably will lose its self-sufficiency in oil before 1980 (p. 141).

This conclusion was reached by the Economic Council of Canada in its Eleventh Annual Review after a study of the energy situation for Canada for the rest of this decade and into the 1980s.

Given the supply interruptions and rocketing prices that have marked the international oil scene recently, the Council suggests Canadians "should be disposed to develop indigenous energy supplies and distribution facilities adequate to meet basic needs in case of future interruption in imported supplies" (p. 142).

This will require "early planning of supply sources and transport over the long run" and "must include development of high-cost sources of oil and gas, as well as coal, nuclear power, and hydro," the Council said (p. 141).

The Review set up three possible "scenarios" for the oil and gas situation facing Canada, based on international prices at relatively low, medium and high levels in the late 1970s.

In scenario A, oil is $6.00 a barrel and natural gas $1.00 per thousand cubic feet, BTU equivalent to the oil price; in scenario B, oil is $7.00 a barrel and natural gas $1.15/mcf; and in scenario C, oil is $8.50 a barrel and gas $1.40/mcf. In the first half of 1974, the average price paid for imported oil in Canada was about $8.00 a barrel (pp. 120 and 128).

In scenario A, development is limited to two plants to extract oil from Alberta's tar sands; consumption runs at a high rate, growing 6.8 per cent a year; and Canada becomes a net importer of oil by 1979. A pipeline to bring Arctic gas down the Mackenzie River Valley is not built until 1985. Gas consumption increases at an average of 7 per cent a year.

In scenario B, oil consumption grows at 6 per cent a year from 1974 to 1980 and 5 per cent in subsequent years. There are four new tar-sands plants by 1985, and Canada becomes a net oil importer in 1980. The Mackenzie gas pipeline starts operation in 1979, and gas consumption increases 6 per cent a year (pp. 121, 128, and 130).

In scenario C, oil consumption grows at only 4.5 per cent a year from 1976 on. Eight tar-sands plants are operating at capacity by 1985, and Canada is still about self-sufficient in oil at that time. (The Council notes such rapid tar-sands development would require an exceptional effort.) Gas consumption increases 5 per cent a year, the Mackenzie line is in operation in 1979, and exports of Mackenzie gas start in 1981 when the pipeline reaches capacity (pp. 121, 128, and 131).

The Council then looks at the extraordinary investment, aside from normal expansion of pipelines and oil production facilities, that would be needed in each situation (p. 135).

In the years 1974 to 1985, this would be $2.1 billion in 1973 dollars under scenario A, $8.7 billion in scenario B, and $12.6 billion in scenario C (p. 136).

Whether the Canadian economy can cope with the heavy investment demands of the second and third scenarios "will depend on the state of the economy in that particular time period," the Council said. "With appropriate fiscal and/or monetary policies the government may be able to offset successfully some of the undesired effects of such large-scale investment. However, if there is already undue strain on resources in particular sectors of the economy, the additional investment required for the above projects could provoke a certain degree of instability in the economy" (p. 136).

To finance these investments, resources would be required from outside Canada to supplement domestic savings. As a proportion of GNP, nonresident saving would range between an average of 1.9 and 2.3 per cent in the late seventies and early eighties compared with less than one per cent in the late sixties and early seventies (p. 237).

The Council said its analysis "suggests that energy strategy should give great weight to the need to encourage

exploration for oil and gas and to the need to restrain the growth of Canadian energy consumption as much as is consistent with the basic requirements of a growing economy" (p. 141).

Economic Council of Canada

Conseil économique du Canada

news release/communiqué

FOR RELEASE
November 26, 1974
9:00 a.m. (EST)

ELEVENTH ANNUAL REVIEW -- General Wrap-up

OTTAWA -- The Canadian economy has been operating at close to capacity despite a more than 5 per cent unemployment rate, and efforts to spur economic growth beyond the economy's ability to produce, in the hopes of reducing unemployment, could well intensify inflation, the Economic Council of Canada warns in its Eleventh Annual Review (pages 50-51). The Review sums up recent economic performance and suggests economic targets to 1977. Taking inflation into account, the Council trimmed back the desirable growth rates for many indicators in its target list from the levels set in the Tenth Annual Review (page 53). The Eleventh Annual Review also suggests the need to establish a set of social indicators that would help determine the quality of life in Canada (page 14).

Analysing present economic performance, the Council said the gap between actual and potential output in Canada largely disappeared in 1973 and "even with more modest growth in output in 1974-76 and with rapidly increasing net investment, capacity will for some time remain tight in comparison with 1972" (page 50).

An average of 520,000 persons were unemployed in 1973. "...while employment increased by an unprecedented 430,000, unemployment declined by a mere 42,000. This puzzling phenomenon suggests the possibility, at least, that there are factors that tend to keep the numbers of measured unemployed substantially higher than in the past. Alternatively, it may suggest that the unemployment rate might move in a downward direction if employers find it increasingly difficult to fill vacancies with people from outside the labour force" (page 50).

In setting new target indicators for 1973-77, the Council reduced its proposed annual growth rate for Gross National Expenditure to 5.5 per cent. It was set at 6.0 per cent in the previous review for 1972-76 (page 53). The former higher rate was specifically aimed at reducing slack in the economy, the Review said, and the lower one recognized that the economy was close to capacity in 1973. The new rate "would be consistent with slightly slower growth in 1974 and 1975 than in 1976 and 1977" (page 54).

The Council suggested that stronger emphasis be placed on investment in plant and equipment because any shortfall in this area "would add to the strains that emerged in the economy in 1973" (page 55). The target for housing starts was left at 245,000 a year (page 55).

The new target growth rate for consumer expenditure is set at 5.0 per cent, down from 5.9 per cent. That for real disposable income per capita is reduced to 3.8 per cent from 4.2. This

resulted from the lowered growth target for Gross National Expenditure (pages 53 and 55).

For exports the growth target dropped to 4.5 per cent from 6.0, and for imports to 6.0 per cent from 7.5. The export dip is because of much weaker economic conditions affecting Canada's trade customers, the Council said. Reduction in the target rate for imports was due in part to a slower start than was expected for some major energy-related projects in Canada and to the reduction of the economy's total output target (page 55).

The target for employment growth was reduced to 3.0 per cent from 3.4 per cent, once again because of the reduced growth rate for total output. The target of 4.5 per cent for the unemployment rate remained unchanged. The target for total output per person employed is left at 2.4 per cent, while that for output per employee in the manufacturing sector is scaled down to 4.0 per cent from 4.5 per cent, "a more realistic figure, given the pressures on capacity felt in a wide range of manufacturing industries in 1973" (pages 53, and 55-56).

In its recommendations, the first one for adoption of its new performance targets (page 56), the Council paid particular attention to problems arising from inflation generally and also in connection with the international scramble for oil and gas supplies (page 56).

Recognizing that much inflationary pressure is generated internationally, the Council urged co-operative control for the

growth of international currency reserves and agreement by nations not to demand too much of the world's productive systems (pages 57-58).

Canada has a temporary advantage in the energy situation because it is, on balance, self-sufficient in oil and gas. But the Council warns that the advantage could quickly evaporate.

Oil production from conventional sources in Canada will fall below domestic consumption levels in "only a few years." (page 59). Supplies from the tar sands or northern frontier areas will be needed to fill the gap -- with consequent higher development costs and heavy investment outlays for transportation systems.

The Council suggested that domestic oil prices be allowed to move to international levels:

"...Canada will face sharply escalating oil production costs as more expensive sources replace conventional ones. The policy of keeping oil prices to Canadian domestic consumers below the price of alternative supplies cannot be maintained for very long; and if it were pursued as a medium-term objective, it could serve to delay needed energy-conserving technological change, hasten the depletion of existing reserves, delay the provision of supplements and alternatives, lower the potential volume of savings, and perhaps foster abortive development of energy-intensive industries dependent upon the hidden subsidy of cheap oil and gas" (pages 59-60).

While an oil price rise in the short run would bump up the cost of living, over the medium and longer term it will be needed to curb increasing consumption of resources that will be costly to replace, to stimulate discovery and production of new supplies, and to generate the savings necessary to bring them to market, the Council said (page 60).

Food prices, jumping 14.6 per cent in 1973 for their steepest climb since the end of the Second World War, attracted Council attention for the second year in a row. The rise in food prices accounted for about half the total increase in consumer prices.

"In view of the importance of food expenditures in total consumer expenditures and the severity of the rise in food prices, we favour the continued use of selective measures to deal with the problem rather than the adoption of any general system of price controls," the Council said (page 58).

Specific measures might include subsidies for some staple foods, measures to expand supply, tariff reductions, and removal of quotas or other restrictions on food trade (page 58).

The Review recognized the effects of the tax system on the saving of Canadian individuals and businesses. A larger supply of savings would be beneficial in helping to dampen inflationary pressure, and in building a pool that would help to meet the expected heavy capital demands of the late 1970s.

In the present inflationary times, "a high premium is given to consumption against saving," the Review said (page 61). This just encouraged more inflation.

Indexing federal personal income taxes to the cost of living in 1974 represented only a partial correction of the tendency of the tax system, during inflation, to shift real resources to the government sector from the private sector, the Review said.

"The sale of capital assets during periods of inflation, for example, may give rise to taxable gains, even though, in real terms, the seller may not have made a capital gain. Similarly, the real value of capital consumption allowances for tax purposes declines during periods of inflation, thereby reducing the ability of business firms to replace fixed assets through self-financing" (page 61).

Federal and provincial governments, in their fiscal policies, should consider incentives to stimulate personal savings and recognize the need for business to sustain an adequate long-term flow of savings, the Council said (page 62).

No one knows the full consequences of linking such things as earnings or transfer payments to a price index, the Review said. But the uncertainties of inflation lead various groups to seek out the specific index they hope will be most favourable to them.

The situation should be kept as simple as possible. Because the purpose of indexing is to compensate for loss of

purchasing power, not to protect initial real standards of living of each individual, no group should be allowed to select a particular index formula that appears likely to prove the most favourable.

"...we would recommend that a single reference index be used wherever indexation is accepted" (page 59).

Housing, health, and air quality were the first three subjects tackled by the Council as it stressed the need to add a series of social indicators to the economic ones for a proper assessment of how the country is faring. The three represented only a small sampling of the factors that, added together, would measure the quality of life. Even within the three areas, the suggestions were merely a start and would provide only initial insights (page 62).

The Council suggested that housing be rated through a crowding index (the number of persons per room) and a measure showing the percentage of income paid per room, the latter being a measure of the cost of housing quality in relation to a person's ability to pay (page 62).

The crowing index dipped to .64 persons per room in 1971 from .74 in 1961, the Council said. The indicator for value per room as a percentage of income increased to 4.2 per cent in 1971 from 3.7 per cent in 1961 in 23 selected major urban areas. Average rent or value per room increased by about 85 per cent while average total household income rose about 62 per cent (pages 75 and 86).

The Reviewalso suggests there is uneven distribution of housing quality and costs across the country. More emphasis should be put on reducing these disparities. One way would be to encourage renovation and enlargement of existing low-quality housing.

"About 21 per cent of households in Canada live in conditions we regard as being excessively crowded. Since new starts at peak times are equivalent to only about 4 per cent of the existing stock, greater emphasis should be placed on renovation activities if we are to achieve a more rapid improvement in housing quality" (page 63).

The federal and provincial governments and the municipalities should co-ordinate efforts to deliver effective incentives for such renovation (pages 63-64).

The Council proposed three initial health indicators -- life expectancy at birth, the infant mortality rate, and the prime-age mortality rate. Accidental and violent deaths, except for suicide, are excluded in each case (page 64).

Life expectancy at birth has risen steadily over the years, to 71.4 years for males and 77.3 years for females in 1971, Council tabulations show. But the disparity between life expectancy for men and women has continued to widen (page 90).

Infant mortality rates dropped by more than 50 per cent from 1951 to 1972. But Canada ranked 12th, just above the

United States and behind such nations as Sweden, the Netherlands, Norway, Denmark, France, and Australia in a 1970-71 comparison of these rates (page 94).

About 40,000 people aged 35 to 64 die each year in Canada (excluding those who die from accidental or violent causes), representing a considerable social and economic loss, the Review said. The prime-age mortality rate dropped about 16 per cent from 1951 to 1972, but the drop for men was only 7 per cent, and that for women 28 per cent. "What needs to be better understood are those socio-economic, environmental, and health care delivery system factors that have a significant impact on prime-age mortality" (page 64).

The Council said that a more complete health picture for Canadians depends on development of information on morbidity, the state or symptom of physical or mental disease (page 89). Detailed, consistent, and comparable data on treated morbidity are potentially available through provincial medical care and hospital insurance plans. Federal and provincial ministers should meet in conference to ensure availability of such data (pages 64-65).

Because "impurities in the air we breathe are unavoidable," the Council selected urban air quality as the first indicator for an environment yardstick (page 100).

The indicator measures concentrations of total oxidants, nitrogen oxides, carbon monoxide, sulphur dioxide, and particulate matter. It then takes into account a special factor representing

the relative effect of these pollutants on human health and well-being to establish a quality measure (pages 65 and 102).

Eleven cities between Montreal and Edmonton, containing nearly 60 per cent of the Canadian population living in urban centres of 10,000 or over in 1971 (pages 102-3), showed overall improvement of air quality over the period 1971 to 1973, the Council said. But it recommended that monitoring should be more detailed and be carried out along with emission inventories in more areas, and that more scientific knowledge should be gathered on the relative severity factors of various pollutants (pages 65-66).

Canada

Economic Council of Canada

Conseil économique du Canada

news release/communiqué

FOR IMMEDIATE RELEASE
December 23, 1974
9:00 a.m. (EST)

Is there a need for "social indicators"? In which areas? In which areas first? If they are created, will they get used? By whom? Can they replace political "gut feeling" in the making of public policy?

These and other questions are confronted by Dr. D. W. Henderson in a research study, "Social Indicators", released today.* It describes the concepts underlying the Economic Council of Canada's work in search of measures additional to the conventional economic measures -- such as GNP -- these new measures being intended to gauge progress towards various social objectives.

The Council's objective in this work is not to downgrade, let alone displace, the statistics that keep track of growing Canadian material prosperity, but to determine the outcomes and the factors at work in various areas of concern -- areas such as health, security, education, and environment -- and, ultimately, how these outcomes contribute to "social equity" and overall well-being.

For example, if one Canadian social goal is good health, how do we measure the degree to which the related objectives are being

*D. W. Henderson, Social Indicators, A Rationale and Research Framework, published by the Economic Council of Canada (Ottawa, Information Canada, EC22-2274, $2.75), 1974, pp. 90.

achieved? Certainly not by adding up the dollars spent on health care. Also, how is health affected by housing, the environment, education? Just as important, what do Canadians want to achieve in these and other areas?

In its Eleventh Annual Review, published last month, the Economic Council developed what it described as "first approximations" of principal social indicators for the fields of housing, health, and the natural environment. Work is under way in other fields, including education.

The study published today takes a more detailed conceptual look at indicators of this kind -- what they are, the history of their evolution here and abroad, the various approaches to their development that are being debated and tested by social scientists, the approach to their development used at the Economic Council, the benefits and problems of such measures, and the "market" for them.

The general conceptual approach to the development of social indicators suggested by this study involves the division of the social system into various areas of concern. Within each area the outcomes and the factors influencing these outcomes are then determined. These outcomes and relevant factors are the social indicators for the area under consideration. In addition there are "qualitative" or "subjective" indicators which can be used to help interpret what the import of the quantitative measures is at a given point in time.

Dr. Henderson identifies four potential groups of users of social indicators: (1) politicians, (2) administrators in both government and business, (3) "experts" concerned less with the larger design of public or private policies than with their detailed workings,

and (4) special-interest and citizens' groups.

When will such indicators come to be accepted and used widely? Only when their value to the country's policy-makers exceeds the cost of developing and using them, the author replies. He adds:

> Because of the considerable benefits believed to be associated with the development of social indicators, efforts should be made to demonstrate to decision-makers -- particularly with relation to specific areas of concern -- that very often the utility and costs of inaction in fact exceed the other costs related to the production and acceptance of social indicators. Nonetheless, this process is likely to be a long-term one in an overall sense.

Economic Council of Canada

Conseil économique du Canada

news release/communiqué

FOR IMMEDIATE RELEASE
April 2nd, 1975
9:00 a.m. (EST)

"We in this country have to sustain a high level of capital investment. When the economy again is operating close to its full potential, we will run into capacity limitations pretty quickly in many areas unless we maintain the expansion of productive facilities...Because we must have high levels of investment, we have to concern ourselves very seriously with the rate and course of inflation." "...As we get more prosperous we have wider choices about what we want to do with our lives. This has an effect on the kind of opportunities people are seeking. All of us have to take that into account in trying to plan the futures of industry and other institutions." These are some of the new imperatives for policy-making in Canada as reported in the Proceedings of the 1974 National Economic Conference, released today by the Economic Council of Canada 1/

1/ Proceedings of the National Economic Conference, Priorities in Transition, Montreal, December 1, 2 and 3, 1974 - Price $2.00, Catalogue No. EC21-4/1974, Information Canada, Ottawa.

Four overriding issues were used to focus much of the discussion as 250 business, labour and other senior decision-makers met in Montreal under the auspices of the Economic Council of Canada. These were:

- Inflation,
- Optimum Utilization of Manpower,
- Productivity Improvement,
- Materials and Energy Supplies and Shortages.

For several months prior to the Montreal Conference, 16 preparatory Committees, in assessing the outlook for the coming five years, identified the top priority issues affecting that industry's prospects. Recommended actions to improve the industry's performance and prospects in the coming years are set out in the various Committee Papers available from the Secretariat of the National Economic Conference (see Papers Request Form at the end of the Proceedings).

Some of the broader economic and social issues on which the Conference called for action include:

- The uncertain and deteriorating world economic conditions;
- The "stop-go" nature of economic policies, in contrast to the longer term requirements of the economy...;
- Questions of income distribution, inadequate levels of income, and the process by which incomes change relatively from one group to others;

- The need for adequate capital investment...;
- The impact of demographic and social changes, personal choice, work preferences, attitudes and motivations, and the impact of industrial and geographical shifts on manpower requirements and availability;
- Sizeable structural changes in the economy and within society, and which are by no means uniform across Canada...;
- The growing impact of the government sector and uncertainties and delays which result from both the changing role of governments and the competition among different levels of government in the exercise of the growing power;
- Better processes of both corporate and government accounting and accountability...;
- Finally, the ways in which decisions concerning land-use, human settlements and community development take place.

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Canada

Economic Council of Canada / Conseil économique du Canada

ews release/communiqué

FOR RELEASE
July 3, 1975

LOOKING OUTWARD:
A NEW TRADE STRATEGY FOR CANADA

"Canada cannot afford any longer to maintain its traditional protectionist posture in a world of trading blocs and emerging new economic powers," according to Dr. André Raynauld, Chairman of the Economic Council of Canada, who announced today that his organization's comprehensive report on Canadian commercial policy would be published on July 10.

"The need for change is very clear," Dr. Raynauld noted. "Our present commercial policy is failing to contribute to this country's capacity for sustained and dynamic growth and is inhibiting independent national decision-making in Canada. We believe it is the Economic Council's job to initiate and foster a wide-ranging public discussion on the options before the country. That is what our report is intended to do."

The report, entitled Looking Outward: A New Trade Strategy for Canada, is the result of a massive assessment undertaken by the Council over the past three and a half years. Fourteen members of the Council's professional staff and 19 outside specialists carried out a large number of individual

research studies as background to the project, many of which will be published separately later. From this and other work, the Council's 228-page report was developed as a consensus document carrying the backing of the group's 28 members.

Dr. Raynauld said that the work had been difficult and he expected the result to be controversial. "Because of its implications, this report will undoubtedly arouse emotional reactions. Our national political life has been strongly affected by commercial policy issues on many occasions in the past, essentially because of the role that has been played by import tariffs in shaping an extensive Canadian industrial complex as part of an independent and self-reliant nation."

He stressed that the document was not an argument for free trade with the United States, as had been reported in one newspaper story some months ago. "We have sought to go back to first principles, assessing Canada's contemporary needs and seeing how well they can be reconciled with our existing trade and industrial policies; our conclusion is that they do not fit with those policies very well. Then we look at the alternatives that might suit our requirements better -- including Canada-U.S. free trade along with many other possibilities -- and try to rank them by means of an evaluation of economic costs and benefits. Free trade with the United States comes quite a way down the list, in fact, although we treat it very seriously because of the relevance it has to so many of Canada's most deep-seated economic and political difficulties."

"Our whole objective is to open up the issue to fundamental reappraisal," Dr. Raynauld indicates, "much in the way that the Gray Report opened up the foreign investment question and the recent Green Paper on Immigration brought that subject into the light of public attention." The Economic Council Chairman suggested that the parallel with those two areas of interest was indeed significant, since a protectionist policy for Canadian secondary industry had from the outset been closely bound up with national goals -- notably independence and unity -- to which such matters as foreign investment and immigration are related in major respects.

The Council is fully aware of the noneconomic factors involved in questions of such national importance and explicitly recognizes the need for public consideration of these aspects. "What we require is, in effect, a reappraisal of the whole complex of forces in Canada and beyond our frontiers, which are increasingly challenging the traditional basis for international commerce and the organization of affairs in all domestic spheres affected by economic events," said Dr. Raynauld. "That reappraisal should be as all-encompassing as the debates of the 1870s and the early years of this century."

Looking Outward: A New Trade Strategy for Canada
Information Canada, Ottawa, 1975
Cat. No. EC22-27/1975, 228 pp.
32 statistical tables, 19 charts
$5.00

For information concerning publication arrangements, contact:
Dr. W. Haviland, Secretary
Economic Council of Canada
P.O. Box 527, Ottawa, Ontario
K1P 5V6 - Tel. (613)993-1634

Economic Council of Canada
Conseil économique du Canada

ews release/communiqué

FOR IMMEDIATE RELEASE
August 1st, 1975
9:00 a.m.

AN ECONOMIC ANALYSIS OF CANADA'S TRADE OPTIONS

The Economic Council of Canada today released a study undertaken at the Council's request by Professor R. J. Wonnacott* that assesses the economic benefits and costs associated with some of the main options Canada could consider in developing a new trade strategy. Professor Wonnacott's work provided some of the analytical foundation for the Council's examination of this question.**

The study was largely written before earnings of production workers in Canadian manufacturing had reached parity with those of their American counterparts. However, Professor Wonnacott argues that "wage parity strengthens the immediacy of the case for trade liberalization".

The object of the study was to examine various commercial policy options, including multilateral free trade,

*R. J. Wonnacott, Canada's Trade Options, Economic Council of Canada (Ottawa, Information Canada, Cat. No. EC22-24/1975, $4.50), 218 pages.

**Economic Council of Canada, Looking Outward: A New Trade Strategy for Canada (Ottawa, Information Canada), 1975.

and more complex situations involving the creation of regional free trade areas, in order to present a systematic evaluation of the economic benefits and costs of each of these options.

The author states that "efficient low-cost production requires large volume, and for Canada this means access to large export markets". However, size is not the only factor involved; the accessibility of markets must also be considered. But this is limited by two types of obstacles -- natural and man-made. Tariffs and nontariff barriers belong to the second category, and these can be eliminated through trade liberalization. Natural barriers include distance -- and transportation costs are by no means the only problem -- and "nongeographic" factors, such as language, culture, customs, and tastes. While free trade can eliminate the barriers erected by man to restrict the exchange of goods, it cannot overcome natural obstacles. Professor Wonnacott concludes that the simplest, most convincing criteria for assessing the various alternatives are: "1) the lower the man-made barriers, the more beneficial; 2) the lower the natural barriers, the more beneficial".

The author then systematically analyses the advantages in each case of eliminating man-made barriers, taking into account the cost of natural barriers or, in other words, the loss of the natural advantages associated with the geographic and nongeographic proximity of a market that is excluded from the free trade area envisaged.

These considerations lead Professor Wonnacott to the conclusion that multilateral free trade should be Canada's first goal and that it should remain the ultimate objective, regardless of the form of trade liberalization achieved. If multilateral free trade cannot be negotiated in the near future, "Canada should take the initiative in negotiating as large a free trade area as possible". But, the author adds, any such arrangement should include the United States. In the context of possible agreement with the United States, the author examines the question of Canadian vulnerability to changes in American policies and to foreign control over Canadian industry.

Professor Wonnacott states that "maintaining present policies is not a viable option, since it implies that our economic situation will substantially deteriorate relative to that of our trading partners".

Finally, the author deals with other policy issues such as the relations between a large and a small country, by looking at the Swedish case. He also examines the possibility of adopting unilateral and other domestic measures to rationalize Canadian industry, and the impact of Canadian and foreign trade barriers on Canadian regions and industries.

Canada's Trade Options is an important contribution to this country's economic literature. It is the first research study to quantify the benefits and costs of various regional free trade options.

Economic Council of Canada

Conseil économique du Canada

ews release/communiqué

FOR IMMEDIATE RELEASE
August 1st, 1975
9:00 a.m.

The Economic Council of Canada today released a study entitled Diversification, Foreign Investment, and Scale in North American Manufacturing Industries by Professor Richard E. Caves.* It was prepared with the assistance of a grant from the Council while the author was a visiting professor at the University of Toronto during 1973-74.

Professor Caves states that most analyses agree that Canada's secondary manufacturing industries are condemned to relatively small-scale operations by the size of the national market and the structure of trade, which prevent most manufacturers from exhausting economies of scale, that excessive product lines are commingled under one roof, and that multinational corporations probably make the problem worse.

However, he argues, little is known about the effects of diversification. Does diversity of output impose a heavy drain on the efficiency of Canadian manufacturing? Are diseconomies of small scale really the diseconomies of overly

*Richard E. Caves, Diversification, Foreign Investment, and Scale in North American Manufacturing Industries, published by the Economic Council of Canada (Ottawa, Information Canada, EC22-23/1975, $2.50), pp. 76.

diversified inputs? Is the level of diversification in Canadian industry a result of natural economic progress or does it grow from imperfections in the market or dubious public policies?

Professor Caves, using information obtained from Dun & Bradstreet on U.S.-owned manufacturing establishments in the United States, American-owned Canadian establishments, and those in Canada that are domestically owned, has attempted to answer some of these questions. The study provides measures of the relative diversity of output of Canada's manufacturing sector, examines foreign subsidiary companies in relation to their American parents, and looks at the plants owned by domestic firms in Canada relative to American plants.

The author concludes that Canadian subsidiaries of large U.S. multinationals are on average less diversified than their parent companies, and that the larger the Canadian subsidiary, relative to its parent, the more diversified its activities are likely to be. When Canadian plants are compared with equal sized plants of large companies in the United States, it can be seen that Canadian plants are more diversified than American plants, and that Canadian plants are much more diversified than those belonging to domestically owned Canadian companies. These patterns are a logical consequence of the small size of the Canadian manufacturing sector and the constraints and opportunities affecting multinational companies. This relation of diversity to market size holds when diversity within individual industries is considered. The author admits, however,

that an attempt to test some explanations of diversity met with little success because of the limitations of the data and the statistical procedure.

The value of more knowledge of diversification for public policy is clear. This exploratory study takes a large step towards filling the void in the literature on diversification.

Economic Council of Canada

Conseil économique du Canada

news release/communiqué

FOR PUBLICATION
9 a.m.
September 12, 1975

OTTAWA -- The Economic Council of Canada today published a study by Paul Malles on employment insecurity and labour relations in the Canadian construction industry.*

In some one hundred pages, the study gives a general picture of the framework and nature of labour relations in the construction sector. It describes and analyses the organization, operation, and role of trade unions and employer associations, and examines current legislation on industrial relations and workmen's security. It surveys the various types of collective negotiations and agreements and categorizes substantive provisions in construction collective agreements. The study is, therefore, an excellent reference for all those interested in organized labour, especially in the construction sector.

Throughout his analysis, the author shows how several factors such as cyclical and seasonal instability in construction employment, lack of continuity of employer-employee relationships and of job sites, the multiplicity of trades, and the diversity of production methods all contribute to create a feeling of uncertainty and insecurity, and how this feeling of insecurity is, in turn, reflected in labour relations.

Mr. Malles argues that employment insecurity is one of the root causes of labour relations problems in the construction industry, and concludes "that institutional and legal changes in the industrial relations system are insufficient. Failure to eliminate insecurity makes the resulting labour relations problems inevitable cost factors in both human and material terms."

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*Paul Malles, Employment Insecurity and Industrial Relations in the Canadian Construction Industry, published by the Economic Council of Canada, Ottawa, Information Canada, Catalogue No. EC 22-26/1975, 106 pages, $3.00 in Canada, $3.60 elsewhere.

Economic Council of Canada

Conseil économique du Canada

news release/communiqué

FOR IMMEDIATE RELEASE

OTTAWA -- For generations Canadians have been asserting that, while substantial economic benefits might well flow from continental free trade, the political costs would be prohibitive. Little effort has, however, been made to assess carefully and systematically the probable political consequences for Canada of a free trade arrangement. Professor Lyon's study[1] broaches the subject by drawing on some recent findings of students of international integration, by surveying the political experience in contemporary free trade areas, and by speculating about the political institutions and processes likely to be associated with a Canada-United States free trade area.

The author argues that the alleged political costs of a continental free trade arrangement are generally stated in terms of Canadian "independence". The basic threat is seen as the erosion of distinctive national values through fascination with the lifestyle of,

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1 Peyton V. Lyon, Canada-United States Free Trade and Canadian Independence, published by the Economic Council of Canada. Ottawa: Information Canada, Catalogue No. EC22-25/1975, 42 pages, $1.25.

and events within, her superpower neighbour, accentuated by the media and the multiplication of transnational ties in business, professional associations, trade unions, the arts, athletics, and a host of other activities.

Professor Lyon asks what would be the overall impact on Canadian autonomy if a Canada-United States free trade area were implemented. The author explores the multiple aspects of Canadian independence in that context, including the formal, economic, transactional, attitudinal, institutional, and policy dimensions. He argues that there is certainly no evidence to support the prediction that free trade with the United States would unleash forces that would drive Canada and the United States on to a customs union, to say nothing of political union. On the other hand, it is quite conceivable that Canada would become less dependent upon exports to the U.S. market because with free trade the prospects of increased efficiency in Canadian industry and the ability to export to third countries would likely improve. The manufacturing component of our exports might also increase. Canada's long-term dependence on inflows of foreign capital should decline. With greater productivity, Canada would gain confidence in dealing with foreign powers, not least the United States. Canadians would have the means to spend more on welfare, regional development, pollution control, education, the arts, and foreign aid. This in turn would augment national cohesion, identity, and autonomy.

Indeed, the author concludes, experience elsewhere and current trends in Canada render it reasonable to expect that free trade with the United States would result in a modest net gain in Canadian autonomy.

Professor Lyon's study considers some of the questions about the political impact of a Canada-United States free trade area that were raised in the Economic Council's recent study of a future commercial policy for this country.[2] As such, it should be required reading for all Canadians who wish to participate in the current debate on a new trade strategy for this country.

Professor Lyon is a political scientist in the School of International Affairs at Carleton University.

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2 Economic Council of Canada, Looking Outward: A New Trade Strategy for Canada. Ottawa: Information Canada, Catalogue No. EC22-27/1975, 208 pages, $5.00.

Economic Council of Canada

Conseil économique du Canada

news release/communiqué

FOR RELEASE
0900 a.m.
October 28, 1975

Sales and Profits Most Unstable in Construction

OTTAWA -- Construction activity is highly diversified, and operating patterns vary considerably between regions and between sectors. Although statistical data were only available for slightly fewer than 20,000 incorporated construction companies in Canada in 1970, the industry in fact is made up of an estimated 80,000 firms. In a study released today by the Economic Council of Canada,* B. A. Keys and D. M. Caskie have used existing data on the incorporated firms, which accounted for two-thirds of total construction activity in 1970, to analyse the structure and operations of the Canadian construction industry, and to provide a more detailed picture of one of the main sectors of economic activity in Canada.

The construction industry is composed mostly of small firms: at the end of the 1960s, 80 per cent of the companies studied had net assets of less than $250,000, while less than 1 per cent had assets higher than $5 million. The authors note that these few large firms account for more than one-fourth of the total sales volume, and that their share tends to increase, while that of small firms diminishes, representing only 26 per cent of total sales. If this trend continues, the smaller enterprises will eventually be forced out of the market.

Although the construction industry experienced sustained expansion over the 1950s and 1960s, both in terms of sales and the number of firms, not only did profits decline, but they also were very volatile. While the number of firms rose from 3,459 in 1953 to 19,917 in 1970, and total sales increased fivefold (from $1,743 million in 1953 to $9,056 million in 1970), profits declined on average by 3.5 per cent annually, and in 1970 more than 40 per cent

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*E. A. Keys and D. M. Caskie, The Structure and Operation of the Construction Industry in Canada, Economic Council of Canada, Ottawa: Information Canada, 1975, Cat. No. EC 22-28/1975, 123 pages, price: Canada, $2.75; $3.30 elsewhere.

of the firms surveyed operated at a loss. The wide fluctuations in sales and profits for each firm and the variability of their output relative to the average for the industry constitute, in the authors' view, one of the main characteristics of the Canadian construction industry. Comparing construction with seven other major industries, they point out that only the agriculture, forestry, and fisheries group recorded greater profit instability, and that construction was the only industry showing a negative rate of profit growth during the 1953-70 period.

Concerning relative riskiness, the authors show that, compared with the average firm in the manufacturing and wood industries, and wholesale trade sectors, the average construction firm has the highest liabilities and the lowest equity. The authors then turn from the overall picture to a comparison between various activities within the industry -- building, highway, bridge, and street construction; other construction; and special trades -- in order to outline the characteristics of each. They note, for instance, that building firms on average have a much higher debt and lower equity than the three categories.

In concluding their study, which includes more than sixty tables, B. A. Keys and D. M. Caskie state that because "the construction industry is very broad and highly diversified ... it is difficult to draw generalized conclusions that would be applicable to the industry as a whole." They add that "the structure of the industry is in a state of flux," leading to altered buyer/builder relationships, and to an increasing use of project and construction managers, as well as build/develop and design/build processes. "This means ... that buyers of construction should acquaint themselves with the conditions and circumstances under which each approach is likely to be relatively more suitable than some of the others."

Economic Council of Canada
Conseil économique du Canada

Government Publications

ews release/communiqué

TWELFTH ANNUAL REVIEW

December 22, 1975

OPTIONS FOR GROWTH

Technical Note for the Press

The Philosophy of the Review

OTTAWA -- The Twelfth Annual Review of the Economic Council is devoted to an exploration of the future of the Canadian economy to 1985. Although this preoccupation with the long term is a common feature of the six chapters and six appendixes in the Twelfth Review, the main elements of the analysis can be grouped around five basic topics: the long-term future in general, the performance of the economy, inflation, social indicators, and regional income disparities. Two press releases are devoted to the first of these topics and one each to the other four, so as to provide a brief initial guide to the contents of the Review. The releases are entitled as follows:

1. Problems of Growth and Some Options for 1980-85
2. The Options and their Implications
3. Assessment of Performance and the Indicators for 1974-78
4. Additional Anti-Inflationary Measures
5. Social Indicators: Performance and Prospects
6. Regional Disparities: Income and Productivity Developments.

These releases are accompanied by a "Numerical Survey of the Twelfth Review," designed to illustrate its main themes. The releases are meant only as an outline of each document rather than a summary; specific references to pages in the Review are given in parentheses. The Twelfth Review contains no recommendations.

The Approach of the Council

Although the Council has stated repeatedly that its performance indicators are not forecasts but objectives attainable over a specific period, the time path underlying the analysis has not been clearly indicated until now. This has been a continuing source of ambiguity about how the indicators should be interpreted.

Performance indicators are developed on the assumption that the long-term growth potential of the Canadian economy has been determined. Two approaches can be used to establish this growth potential. The first consists in quantifying the foreseeable increase in the labour force, setting the unemployment rate in a full-employment situation, and calculating the increase in the capital stock required to absorb the labour-force growth. Then, by making an assumption about the general level of output per worker, a measure of the supply of goods and services that the economy could produce over the long run, given full utilization of resources, is obtained. This increase represents potential output; its annual change is the potential for growth.

The second approach, which has been employed since the Ninth Review, involves making detailed projections, taking

account of both supply and demand and their interaction in the long term. Such a technique allows multiple assessments of potential, which vary according to assumptions about the external environment and the economic policies pursued. The size of the labour force depends on participation rates of the working-age population, which will vary according to the level of economic activity, while the stock of capital relates to the level of current investment, which in turn will respond to interest rates, recorded production levels, and general demand conditions. Depending on the nature and number of the assumptions, several projections of potential -- that is, estimates of the long-term production possibilities -- can be obtained. In the Twelfth Review, the Council has developed four such projections, based on the common assumption that no change in present policies will occur. Then, around these scenarios, two other projections are made incorporating the effects of specific policy changes.

Long-term projections are only a first step. The second step involves the passage from the current situation to one of medium-term equilibrium consistent with potential output. In the Council's work, this path is represented by the performance indicators, which are desirable and attainable targets representing the Council's priorities. They can be pursued simultaneously over a three-year future period, provided appropriate policies are implemented. Therefore, like the concept of potential, the notion of performance indicators is that of a goal or preference; it is in no sense comparable to the idea behind a forecast. To emphasize this, the Council has this year introduced a *control solution*, as it has done

for growth potential, which projects the main economic aggregates for the 1974-78 period, based on the assumption that current policies will remain unchanged. After having identified some of the problems likely to emerge in the medium term, the Council has then determined the objectives -- and hence the indicators -- that should be pursued over the same period. These indicators imply that appropriate policies for stabilizing demand and supply will be implemented.

Whether the horizon is the long or medium term, the approach of the Council in this Twelfth Review is to identify possible difficulties and to define the proper policies for solving them.

Working Procedure and Publication

Sixteen researchers have collaborated, under the direction of Mr. Norman E. Wale, in the preparation of the technical studies underlying the Council's Review. The detailed projections were made with the help of the econometric model known as CANDIDE model 1.2. The Review has been printed and will be sold by Information Canada for $4.50. It is accompanied by a brochure entitled "Economic and Social Indicators 1975", distributed free of charge, which summarizes the Council's assessment of current economic performance in

Canada and introduces the new performance targets proposed for the period to 1978.

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Ottawa, Ontario.
K1P 5V6
Tel. No. (613) 993-3591

Economic Council of Canada
Conseil économique du Canada

news release/communiqué

TWELFTH ANNUAL REVIEW

FOR RELEASE
December 22, 1975
2:00 p.m. (EST)

PROBLEMS OF GROWTH AND SOME OPTIONS FOR 1980-85

OTTAWA -- In its exploration of the future, the Economic Council has attempted to identify the problems the Canadian economy could face in the early 1980s. The method used in the analysis is to provide a description of the Canadian economy assuming no change in present policies and programs. Then, from that basis an examination is carried out of the alternative policies that may be required to deal with emerging difficulties. On present trends, and taking into account the uncertainty surrounding external developments and future energy prices (pp. 10-11), the Council identifies five key elements in the future path of the economy, on which it establishes its major conclusions (pp. 111-114).

Slower Potential Growth

First and foremost, the slower growth of the labour force and the increasing sluggishness in productivity gains will result in a decline in the potential growth rate of the Canadian economy to about 4 per cent in the 1980s, compared with an average of 5 per cent to 5.5 per cent during the 1960s and 1970s (p. 111). This implies, of course, that if the rate of real

growth is lower than 4 per cent, productive capacity will be underutilized and resources will be wasted. Similarly, on the demand side, even if all the elements for strong growth are present both in Canada and abroad, the Canadian economy will be incapable of expanding at a pace faster than 4 per cent without aggravating the imbalances and tensions that can already be detected at this rate.

The Council believes that an average annual growth rate in the economy of 4 per cent would help to stabilize the unemployment rate at around 3.5 per cent by 1985, but that by the mid-1980s there could be tightness in the labour market (p. 16). This tightness would vary from region to region. The Council's projections show that by 1985, the working-age population will be expanding in only two of the five Canadian regions -- namely Ontario and British Columbia, where growth is expected to be 2 to 3 per cent annually. In the other regions, there will be almost no growth at all (p. 51).

Deterioration of the Balance-of-Payments Benefit

The Council's second major conclusion is that it will be very difficult over the period in question to avoid balance-of-payments problems (p. 112). The projected deceleration of growth in foreign economies, particularly the United States, the recent deterioration of the competitiveness of Canadian industry, and the gradual decrease in Canadian oil shipments will contribute to a slowing down of exports. Thus the share of exports in GNP is projected to decline over the period

envisaged, while that of imports is expected to remain relatively stable. In consequence, the average deficit in the balance of Canada's current account with the rest of the world could rise to 3 per cent of GNP in the early 1980s (p. 112), which would be three times the average level registered in the 1960s. A significant portion of this deficit would be attributable to the trade in petroleum, as Canada will soon be, or indeed may be already, a net oil importer and will remain so throughout the first half of the 1980s.

The question then arises if it would be realistic to depreciate the exchange rate to reduce the current-account deficit (p. 19). The Council notes that a large part of the deficit is likely to be attributable to the problem of oil purchases in the majority of industrialized nations, in which case the nature and size of the deficit in an individual country like Canada will have a rather new meaning. But, in any case, devaluation could have inflationary consequences and could prevent a significant long-term improvement in the competitiveness of Canadian industry. At best, it would allow us time to adjust in more fundamental ways to emerging difficulties. The Council believes that "it would be unwise to count on significant and continuing devaluations of the Canadian dollar to resolve the balance-of-payments problems of the early 1980s" (p. 20).

A Substantial Investment Effort

Third, the Council's study of future prospects shows that substantial investments will be required until the early

[illegible]

[illegible]. In [illegible], the average [illegible] [illegible] account with the [illegible] of the [illegible] could produce 1 per cent of GNP in the [illegible], which would be three times the average [illegible] in the [illegible]. A [illegible] portion of this [illegible] attributable to the [illegible] in [illegible], as [illegible] will [illegible] [illegible] [illegible].

The question then arises [illegible] [illegible] [illegible] [illegible] [illegible] [illegible] [illegible] [illegible] [illegible] [illegible] [illegible] [illegible] [illegible] [illegible] [illegible] [illegible] [illegible] [illegible] [illegible].

[illegible]

Third, [illegible] survey of [illegible] [illegible] [illegible] [illegible] [illegible].

1980s to improve Canada's productive capacity and to compensate for the relative weakness of investment in the last ten years (p. 113). The Review suggests that Canada should devote an average of 25 per cent of its resources to savings and investment. Moreover, with a less favourable industrial structure, more and more sizable additions to the stock of capital will be necessary to sustain a given productivity growth rate.

Finally, important new investments are planned in certain sectors of the economy, such as those associated with the development of energy resources and transportation facilities, as well as with restructuring of industries threatened by international competition. It will not be sufficient, therefore, to redistribute investment between sectors, favouring certain industries to the detriment of others. What is required, in the Council's opinion, is an overall effort -- an increase in savings and investment and a redistribution of expenditures between the public and private sectors.

Larger Inflows of Foreign Capital

A fourth major point to emerge from the Council's analysis is that the volume of domestic savings required to finance this investment could be inadequate. Capital needs between now and the early 1980s will total between $800 billion and $860 billion (in current dollars), depending on the extent of the development of natural resources and the external environment (p. 135); this amount is equal to more than six times last year's GNP. Thus, reliance on foreign financing would likely be

more substantial than in the past and might amount to more than 16 per cent of total investment requirements, assuming moderate external growth and energy prices (Table B-1, p. 136).

Stabilization of the Government Share in Economic Activity

Finally, the Council's projections assume that the share of the public sector in GNP will remain at the present level. The Review notes that this share has almost doubled since 1950, climbing to close to 40 per cent. "Whatever the reason, governments have either directly or indirectly assumed ever-increasing control over the economy's total resources" (p. 114). If there were a modest rise in energy prices, the government budget deficit would be higher than in the past and could increase to somewhere between 0.5 per cent and 1.2 per cent of GNP in the early 1980s, depending on external developments. The Council argues that removal of the subsidy on imported oil would tend to reduce government budget deficits in the early 1980s and would further encourage the adoption of energy-saving devices (p. 19). It also notes that, in order to halt the growth in their share of economic activity, governments will have to agree to limit increases in their expenditures. Moreover, they will be obliged either to resort to methods of intervention other than the tax system or else to increase markedly the effectiveness of existing programs, if they wish to pursue their objectives of economic stabilization, redistribution of income, and sustained economic growth.

The Scenarios

Assuming no changes in present policies, these are the major problems that will face decision-makers in the 1980s. Nevertheless, much depends on developments in two key areas of uncertainty: the external environment and the energy-price situation. To take these two factors into account, the Council has studied in detail four configurations of the economy to 1985 (p. 11). These scenarios are based on assumptions of relatively weak or strong performance by foreign economies, in combination with moderate energy prices (scenarios 1 and 2) or high energy prices (scenarios 3 and 4). In all cases, the Council's projections indicate three sources of potential difficulties: the balance of payments on current account, the budget position in the public sector, and the availability of capital and labour resources (p. 19). Depending on the external environment postulated, the economy may experience a shortfall of demand coupled with unsustainable budgetary deficits or excess demand coupled with labour market tightness. Assuming higher energy prices, the current-account deficit would be smaller than otherwise and the government budget position would be improved regardless of external demand.

Options for Growth

The most striking result of the Council's analysis, however, is the projected decline in potential growth of the Canadian economy to 4 per cent in the 1980s. The Review

Assuming no changes in present policies, Egypt, in the longer run, will have balance-of-payments problems as the present Suez Canal "windfall" is exhausted, and its imports of food continue to increase. The Egyptian government is attempting to check this trend by increasing agricultural productivity, and by encouraging industrial development in order to reduce the dependence upon imported manufactured goods. Since these policies will take time to bear fruit, and since Egypt's present foreign exchange reserves are small, the country will continue to need external finance in order to import capital goods needed for economic development. Accordingly, Egypt will presumably look to the Western powers and the Soviet bloc, as well as to international lending institutions or external finance.

Egypt's economic development plans are dependent, to a considerable extent, on the success of its efforts to increase foreign exchange earnings.

examines the possibility of reversing this downward trend of potential growth or, on the contrary, of accentuating it. These alternatives involve a choice in policy. According to the option selected, the Canadian economy could expand at between 2½ per cent and 5 per cent annually in the 1980-85 period (p. 54), while fulfilling the Council's objectives of full employment, price stability, and equilibrium in the balance of payments.

If all demand conditions were favourable, and if this were deemed desirable by the Canadian people, an annual GNP growth rate of 5 per cent in the early 1980s would be possible, but only provided productivity improved markedly or the labour force increased more than expected from 1980 on, or both (p. 55). The wishes of the Canadian people, possibly combined with changes in economic conditions could, on the other hand, dictate slower economic growth, especially in the event that the external environment were unfavourable and declines in the relative price of oil encouraged weakness in investment in energy development (p. 57). Under such circumstances, it would be appropriate to decrease the potential growth rate by reducing the labour supply so as to avoid an increase in unemployment, at the same time moderating demand to limit imports and narrow the deficit on current account.

In either case, it is a matter of choosing policies to manage the country's potential growth rate that will both maintain economic balance and respond to wider Canadian priorities.

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K1P 5V6
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December 22, 1975
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THE OPTIONS AND THEIR IMPLICATIONS

OTTAWA -- If the growth potential of the Canadian economy declines to an average of 4 per cent a year in the early 1980s, it will be because the main factors capable of generating expansionary strength are likely to evolve much less favourably than in the past. During the 1960s, the Canadian economy grew on average, by close to 5.5 per cent annually, in large part because of increases in employment but also, to a lesser extent, by virtue of gains in output per worker (p. 44). In its Twelfth Review, however, the Council anticipates for the future a marked slowdown in the rate of increase of both components, and even a reversal of present trends in the labour force.

Even if net immigration were maintained at the relatively high level of 100,000 people a year, and assuming that the participation rate among the population over 14 years of age expanded at the same rate as hitherto, there would be no fundamental change in the tendency of labour-force growth to slow down. The Council's estimates show it as falling from an annual rate of 3.4 per cent over the

past five years to 2.5 per cent between 1975 and 1980 and 2.0 per cent from 1980 to 1985 (p. 48 and Table 3-4). According to the Council, this decline could well account for half the anticipated lowering of the economy's growth rate, the other half being caused by a projected significant diminution in the rate of increase in productivity (p. 46).

Aggregate productivity depends on the cumulative effects of developments in the structure of the economy and the rate of improvement in output per person employed. The Council believes that output per worker -- a pure productivity effect -- will continue to increase at a pace similar to that experienced in the past (Table 3-3) but that part of this gain will be offset by a negative structural effect: the continuing enlargement of the share of service industries in the economy. Growth in output per person employed in these industries is low, and as a consequence the increased importance of this sector in the total economy implies lower overall productivity growth. Until now, the shift of employment to service activities had little apparent adverse impact because it was balanced by a significant decline in employment in agriculture, where the productivity level is also below the average for the economy, and by strong growth in the mining sector, where the level of productivity is significantly higher than the national average. In the Council's view, from now on the negative structural effect will be strong enough to induce a decline in the productivity growth rate to an annual average of 2.7 per cent between 1975 and 1980 and 1.8 per cent in the early 1980s (p. 47).

Rapid Growth

If this prospect is felt to be unattractive, rates of growth comparable to those experienced during the 1960s could be achieved in the future, but only by once more achieving significant productivity gains or a marked increase in the size of the labour force. Both of these are possible, but their implications for policy differ.

Potential output in the 1980s could be raised to 5 per cent a year by altering, through appropriate policies, the very unsatisfactory productivity performance in Canada (p. 116). This would allow us to increase output without working more or, conversely, to be content with a smaller labour supply without reducing output.

Such improvement is all the more desirable because the competitiveness of Canadian industry has deteriorated continuously in recent years (p. 117). Between 1970 and 1973, when the world was experiencing unprecedented expansion, the Canadian trade balance in manufactured goods worsened substantially, declining from a surplus of 2 per cent of gross domestic product in that industry to a deficit of 9 per cent. This weakening of Canada's competitive position is cause for deep concern to the Council. If we take for granted that the supply of labour will become tighter in the 1980s, it then becomes imperative to avoid wasting limited resources. The Council therefore reaffirms vigorously "the need for a shift in our commercial policy to help resolve the balance-of-payments dilemma that will have to be faced in the early 1980s". As the Council's

recent report on commercial policy, *Looking Outward*, has suggested, "deliberate trade liberalization is the policy most likely to contribute to solving the productivity problem" (p. 117).

If, by contrast, employment growth were the only available way to maintain Canada's rate of expansion, the labour force would need to increase by an additional 100,000 persons a year to maintain an unemployment rate (in a full employment economy) of 4 per cent (p. 55). This would be possible only through an increase in the participation rate of women or a tripling of the annual level of net immigration. By 1985, one out of every two women would have to be in the labour force, compared with one out of three in 1970 and one out of five twenty years ago. Net immigration would have to reach 300,000 persons a year after 1980 -- a level never until now attained in Canada (pp. 55-56). Even in the event that we chose an intermediate course (p. 56 and Table 3-8), it is felt that more foreign capital and immigrant workers would have to be accepted. "Yet", the Review notes, "the first of these possibilities does not sit well with some Canadians ... and the second is also beginning to be questioned .... The Council urges that "... we should be paying close attention to the total economic environment in which we will be operating, lest we adopt piecemeal policies that may turn out to be inconsistent with our overall long-run objectives" (p. 20).

Slow Growth

On the other hand, developments abroad or circumstances at home might lead us to decide to lower our growth objectives and to adapt them to available domestic capital and labour (p. 115). In this context, mention must be made of the recent line of argument that it would be in Canada's interest to limit consumption and growth, so that future generations can inherit a more abundant stock of wealth in the form of a cleaner natural environment, more plentiful nonrenewable resources, and a larger accumulated stock of capital and savings (p. 114).

It could also be argued that the work week is too long or that labour force participation by certain categories of persons should be discouraged (p. 114).

Finally, although immigration can be regulated in order to increase manpower, immigration policy can hardly be restricted exclusively by reference to such a goal, since its implications extend beyond the labour market and relate to the evolution of society as a whole. A number of problems that are unique to Canada -- such as the linguistic balance and the settlement of metropolitan centres -- may be aggravated by an immigration policy that places too much emphasis on only one objective. Parenthetically, it must not be forgotten that the population downturn of the 1980s may have a more direct effect on those regions -- such as Quebec and the Atlantic provinces -- whose development has depended mainly on the natural growth of their populations rather than on immigration. A more pronounced slowdown in population growth in these regions combined with a strong immigration policy could tend to accentuate regional disparities (p. 56).

Taking these various factors into account, it is possible than an even slower and more restrained growth might be deemed preferable. In this situation, the Council believes that a reduction in growth potential could be achieved by cumulating the effects of three measures, two of which would contribute to reducing the increase in the labour force, while the other would be aimed at reducing the duration of work. If net immigration were gradually lowered to zero by 1980 (p. 57) and retirement age were brought down from 65 to 60 years between 1975 and 1980 (p. 58), the average annual growth rate of the labour force would decline from its present 2.5 per cent to 2.0 per cent by 1980 and to 1.1 per cent by 1985. The labour supply might be still further decreased by shortening the work week. Over the last twenty years, the net work week for all workers -- taking into account paid holidays and vacations -- has been reduced by about six hours to 36 hours (p. 58). If it were lowered to 34 hours by 1985, along with the other changes indicated, the increase in the supply of total labour time -- that is, hours worked by available workers -- would be no more than 0.7 per cent in 1980-85, compared with 1.6 per cent in the Council's moderate-growth scenario (p. 59). The overall annual GNP growth from 1980 to 1985 would then be no more than 2.7 per cent, but unemployment could still be held to 3.8 per cent, which is comparable to the levels projected in the rapid- and slow-growth scenarios (p. 59 and Table 3-8).

The Alternatives

Unless participation rates and productivity expand at very favourable rates, rapid growth will be possible only through increased inflows of foreign capital and larger absorption of immigrant workers. If these prospects are judged undesirable and Canadians feel they want to rely largely on their own resources only, growth will be slower. These are the basic alternatives.

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FOR RELEASE
December 22, 1975
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ASSESSMENT OF PERFORMANCE, AND REVISED INDICATORS FOR 1974-78

OTTAWA -- Analysing medium-term economic prospects in its Twelfth Annual Review, the Economic Council anticipates that, despite rapid growth between 1976 and 1978, unemployment as well as the gap between potential and actual GNP will remain high over the next two to three years. Concurrently, however, the degree of capacity utilization is expected to reach critical levels, suggesting that supply constraints may well emerge again in 1977 and 1978. Finally, dwelling starts are projected to fall short of new housing requirements, resulting in upward pressures on shelter costs.

These estimates are derived from a "control solution" -- a standard establishing the main features of the outlook -- in which it is assumed that no major policy will change, energy prices will increase moderately and the economies of Canada's principal trading partners will grow modestly. Given these prospects for the medium term, the Council concludes that some sectors of the economy will need stimulation so as to

increase aggregate demand, alleviate capacity constraints, and lower the unemployment rate.

The Council suggests that personal income taxes be reduced to bring the increase in real disposable income to an average of 4.8 per cent a year. Such a reduction would, on the one hand, serve to increase consumer expenditures to an average of 5.5 per cent per year, compared with 4.9 per cent annually in the control solution; on the other hand, it would encourage a personal savings rate averaging of 8.4 per cent of disposable income.

To meet this increase in consumption and to reduce supply constraints, the Council proposes that firms be encouraged at the same time to increase their investment through fiscal incentives. As a result, total fixed investment ought to rise from an annual average rate of 3.8 per cent to the Council's target of about 5.4 per cent for the 1974-78 period (p. 90).

Finally, the target for housing starts has been set at an average of 240,000 units per year. The attainment of this target should be facilitated by the federal government's decision to encourage the construction of one million housing units over the next four years (p. 88).

The proposed measures would have the effect of raising the growth rate of real gross national expenditure from a yearly average of 4.7 per cent in the control solution to 5.2 per cent (p. 88). The unemployment rate would consequently be reduced by 1978 to about 4.5 per cent in aggregate or 3.5 per cent in

the case of men aged 25 to 54 -- a category proposed by the Council as a new labour market indicator since it is a more reliable measure of the degree of ease or tightness in the employment market (p. 88).

The proposed level of investment for 1974-78 would result in an increase in imports and thus in a larger current-account deficit, averaging 2.5 per cent of GNE (p. 90). Fiscal concessions would result in large government deficits at the beginning of the period, compensated by surpluses later, so that over the period an average net surplus of about $300 million per year would be recorded. Government revenues and expenditures would increase at an average annual rate of about 12 per cent in current dollars, which implies a slowing down of the increase in expenditures (p. 90).

Finally, the Council's projections -- completed before the introduction of the anti-inflation program -- suggest that the rate of price increase will decelerate until 1978, but that inflationary pressures will diminish even more among Canada's major trading partners. As a result, the relative price indicator will tend to move beyond the upper limit of the zone considered acceptable for Canadian price performance (p. 91). The Council notes, however, that it would not be advisable to implement policies designed to restrain aggregate demand in order to improve price performance, since such measures would result in a significant rise in the

unemployment rate. It concludes that, if a better price performance is to be achieved, increases in production costs will need to be moderated.

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ADDITIONAL ANTI-INFLATIONARY MEASURES

OTTAWA -- Few industrial countries have escaped the twin scourges of inflation and unemployment in recent years. Even though Canada's performance in these respects has been better than that of most other developed countries, the policies adopted have failed to achieve either full employment or reasonable price stability (p. 118). The persistence of inflationary pressures is, to say the least, a source of real concern to policy-makers. According to the Economic Council, it reveals the increasing importance of cost-push elements and the presence of a developing income/price spiral even in a period of economic slowdown (p. 119). Moreover, the prospects do not appear very encouraging. In the Twelfth Review the Council anticipates greater upward movement in Canadian prices than that experienced in the nations with which this country carries on most of its trade (p. 119). However, this estimation was made before the introduction of the anti-inflation program and made no attempt to calculate the effects of that program on its price forecasts.

Given the gravity of these inflationary trends and the urgency of new policies to deal with the situation, the Council concluded at a meeting held on October 6, 1975, that traditional stabilization techniques alone were insufficient to yield full employment and price stability. It judged that policies could be more effective if they were framed within the context of a longer-term strategy (p. 120), and also that all action taken against inflation would be enhanced if governments were to exercise restraint in their expenditures (p. 121). Finally, the Council considered it important to develop other formulas to complement established policies.

The Council recognizes that the most desirable course to hold back domestically induced cost-push inflation is to leave unconstrained the impersonal workings of market processes, but to reinforce them by clear government guidelines on income and price increases (p. 121). But, as was demonstrated by the efforts of the federal government in the first half of 1975, the conditions required for such a policy to be effective are not yet present in Canada.

One alternative contemplated by the Council at the time of its October meeting was a surtax on incomes that increase more rapidly than a specified rate. This surtax was seen as acting as a deterrent to individuals and firms behaving in a way detrimental to long-run price stability, while avoiding direct interference in their decisions (p. 122). Although the basic mechanism for the implementation of this

scheme, which was envisaged as becoming a permanent policy instrument of government, would have been the income tax system, its use could have led to a number of difficulties (p. 123). The Council felt at the time that these would need to be resolved before the surtax could be implemented.

Less than a week after the Council's deliberations, the federal government decided to implement a comprehensive anti-inflation program. As the Review states, "The Council's perception of the problems confronting the economy are clearly much the same as those that led to this decision" (p. 123).

Assessing the outlook for these government measures, the Council notes that in the new initiative, as with all incomes policies, the art of persuasion must obviously play an important role (p. 125). The effect of the program will have to be judged in terms of two criteria -- efficiency and equity. With respect to the first, the Council emphasizes that it appears dangerous to define a policy on the general level of prices without any reference to the kinds of price policies being followed at the same time in other countries (p. 125). It comments also that, even if the program succeeds in altering inflationary expectations in the short term, there

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SOCIAL INDICATORS: PERFORMANCE AND PROSPECTS

Housing

OTTAWA -- The Economic Council, in its Twelfth Review, says that the observed lowering of the crowding index, defined as the number of occupants per room in dwellings, reflects a significant improvement in housing conditions in Canada since 1971 (p. 94). The percentage of dwellings with one person per room or more, which the Council considers too crowded, has declined by more than one-fifth -- from 21 per cent in 1971 to less than 17 per cent in 1974 (p. 95). This improvement is due mainly to a decrease in the number of persons per household, which has more than offset the much smaller decline in the average number of rooms per dwelling. The latter may be partially a result of the greater number of completions of multiple dwellings than single-detached houses (p. 94). The Council also states that housing costs, measured in terms of rent or value per room as a percentage of total household income, have not changed significantly since 1971. The value of this indicator has remained relatively stable during the period, at between 4.0 and 4.5 per cent (p. 97). However, the Council estimates that, to meet the projected additions to the housing stock between 1974 and 1985, about 30 per cent more land will be required for residential and related service needs.

Much of this increase will be concentrated around urban areas. This phenomenon will likely contribute to upward pressures on housing costs.

In its examination of the probable trends of factors that will determine the supply of and demand for housing until 1985, the Council notes three factors that may have a decisive influence on the two indicators (p. 98). An increasing proportion of single young people leaving home at an early age and elderly persons living alone would result in an acceleration of the downward trend of the crowding index (p. 99). Higher net immigration would have the opposite effect on the trend of the crowding index and might also contribute to an increase in the housing cost indicator (p. 98). A continued decline in the fertility rate would tend to have a downward influence on the crowding index, while a reversal of this trend would have an upward effect.

Health

The Council notes that the overall infant mortality rate, one of its indicators of health, has dropped 9 per cent between 1972 and 1973, compared with an annual average decline of 4 per cent between 1951 and 1972 (p. 100). The Council believes that, while it is difficult to know precisely why this has occurred, an improvement of this magnitude might at least be partly explained by a general improvement in health care facilities and access to them (p. 102).

The prime-age mortality rate for males has increased from 591 deaths per 100,000 persons in 1972 to 597 deaths in 1973, excluding accidental and violent deaths except suicide, while the rate for females in this age group has remained stable at about 420 deaths per 100,000. The increase in the male mortality rate is mainly attributable to cancer

and related diseases (p. 102). Although this trend is unfavourable, life expectancy has tended to increase generally for both sexes since 1971 (p. 103).

Urban Air Quality

Although air quality improved in general for eleven large urban areas in Canada between 1971 and 1973, the urban air quality indicator deteriorated in 1974. The largest declines in the city pollution index were observed in Cornwall, Ottawa-Hull, and Hamilton, while the highest increases occurred in Calgary, Sudbury, and Toronto. The Council notes that this general deterioration results from greater concentrations of nitrogen oxides and total oxidants, which were only partially offset by a reduction in carbon monoxide and sulphur dioxide emissions (p. 103). The Council concludes that "high priority should be placed on the control of nitrogen oxide emissions," which are largely a product of fuel combustion (p. 104).

To achieve this, the Council proposes general guidelines and certain initiatives (p. 105). The Council believes that costs resulting from a polluting activity should be borne, to a reasonable extent, by the polluters. It argues that the control of pollutant emissions at the source, in reference to predetermined standards, should be encouraged, and that procedures aimed at avoiding or reducing such emissions should be adopted (p. 106). In the case of large fixed sources of pollution, the Council suggests that a system of emission charges be adopted (p. 106). This system would impose levies on each unit of a pollutant emitted beyond pre-established limits (p. 107). These levies would vary with location and the pollutants emitted. The Council feels, on the other hand, that it would be almost impossible to monitor numerous small sources of

pollutants (p. 106). For these small sources, it will be necessary to rely, for example, on equipment and specification standards.

The Council also examines the possible financial consequences associated with certain measures aimed at further reduction of automobile emissions, particularly nitrogen oxides (p. 108), and estimates that, by the end of 1974, Canadians had spent more than $900 million (1972 dollars) to meet the new automobile emission standards. If the 1975 standards were retained until 1985, the cumulated costs of implementation would reach $5.3 billion (1972 dollars) in Canada (p. 109); with the standards that may be adopted over the next few years, these costs could be about $1 to $3 billion higher.

The Council believes that governments should undertake a thorough examination of objectives and priorities in the area of urban air quality and of the effectiveness of existing control strategies and programs in order to establish the appropriate changes required to ensure the achievement of the present or revised objectives and priorities. It proposes that all levels of government should take part in this investigation but that the review could take the form of a "green paper" prepared by Environment Canada (p. 110).

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TWELFTH ANNUAL REVIEW OF THE ECONOMIC COUNCIL OF CANADA
"OPTIONS FOR GROWTH"
Information Canada, Ottawa,
Cat. No. EC21-1/1975
Price: Canada, $4.50; other countries, $5.40.

For additional information call:

Mr. Patrick Robert,
Economic Council of Canada,
P.O. Box 527,
Ottawa, Ontario. K1P 5V6
Tel. No. (613) 993-3591

Economic Council of Canada
Conseil économique du Canada

news release/communiqué

TWELFTH ANNUAL REVIEW

FOR RELEASE
December 22, 1975
2:00 p.m. (EST)

REGIONAL DISPARITIES:
INCOME AND PRODUCTIVITY DEVELOPMENTS

OTTAWA -- Per capita income disparities have tended to diminish among the five main regions of Canada over the last forty years. The Economic Council estimates in its Twelfth Annual Review that in recent times, and particularly in the last twenty years, personal income per capita has increased less rapidly in high-income regions -- Ontario and British Columbia -- than in Quebec and the Prairie and Atlantic regions (p. 22). Per capita income in Ontario is now only 17 per cent higher than the national average, whereas it exceeded that average by more than 25 per cent at the beginning of the 1930s. In the Prairie provinces, per capita income falls short of the national average by about 10 per cent today, whereas it was almost 25 per cent below the average forty years ago (p. 22, and Table 2-1).

In its study of these regional trends in per capita income, the Council notes that the convergence results from different developments in two components -- wages and salaries (p. 25) and transfer income associated with federal and provincial social programs (p. 28). While the growth rate of wage and salary income

per capita has been close to the national average in Ontario, Quebec, and the Prairie region, it has been significantly lower than the average in British Columbia and slightly higher than the average in the Atlantic provinces (p. 25). Generally, the Council believes that convergence towards the national average has resulted from slower growth of wages and salaries in British Columbia and faster growth of transfers in the Atlantic region (p. 28).

However, substantial regional disparities remain, especially with respect to productivity. Data for 1971 show that the level of output per worker in the Atlantic provinces was about 25 per cent lower than in Ontario, while that in Quebec was more than 15 per cent below the Ontario level (p. 31, Table 2-5). The gap in productivity is even more noticeable in manufacturing alone. Output per worker in manufacturing in the Atlantic region over the 1970-72 period was some 35 per cent below the Ontario figure, and the gap between Quebec and Ontario was around 20 per cent -- roughly the same magnitude as the difference in manufacturing productivity between Canada as a whole and the United States (p. 34). In most regions, the disparity derives mainly from different levels of output per worker rather than from contrasts in industry structure.

Similarly, the Council shows that productivity improvements occurred in the 1960s, but not at the same rate in all regions (p. 35). Productivity throughout the country tended to converge towards the national average: for example, in British Columbia productivity growth was weak, while in the Atlantic and Prairie regions it was strong. In the majority of cases, variations in

productivity growth again result from different developments in output per worker rather than from regional peculiarities of industrial structure (p. 38). Because of the marginal significance of this latter factor, the Council believes it is unlikely that productivity improvements -- and consequent income gains -- can be achieved through modifications to the structure of industry in lower-income regions (p. 40).

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K1P 5V6
Tel. No. (613) 993-3591

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ews release/communiqué

TWELFTH ANNUAL REVIEW

FOR RELEASE
December 22, 1975
2:00 p.m. (EST)

NUMERICAL SURVEY OF THE TWELFTH REVIEW

OTTAWA -- While admitting that, even in the best of circumstances future uncertainties made it very difficult to develop a clear picture of the economy in five or ten years, the Council has undertaken in the Twelfth Review, a study of four possible configurations of Canada's economic prospects over the period to 1985. These scenarios all assume that there will be no change in domestic policies, but each involves a different view with respect to the external environment and energy prices. In other words, each of the four alternative outlooks describes a plausible future, assuming no further government intervention. On the demand side, the evolution of the Canadian economy to 1985 varies from one scenario to another, but on the supply side there is a marked slowdown from 1980 to 1985 in all four of them. Using one of the scenarios, the Council then shows that, depending on the policies that might be applied, it would be possible either to reverse or to accelerate that slowdown. Two new growth options

are also presented, one involving more rapid expansion than the medium-growth scenario, the other slower growth.

The main characteristics of these growth options, as well as those of the four scenarios, are outlined in Table 1.

The Council has also developed a "control solution" for the immediate future, assuming no changes in policy, from which a desirable future is presented in the form of performance indicators for 1974-78. These indicators imply that efforts should be made to stabilize demand and supply. The assumptions and the results associated with these estimates are presented in Table 2.

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Economic Council of Canada,
P. O. Box 527,
Ottawa, Ontario.
K1P 5V6
Tel. No. (613) 993-3591

Table 1

THE THREE GROWTH OPTIONS TO 1985

	Slow-growth option		Medium-growth option								Rapid-growth option	
			1		2		3		4			
icies	Increase in personal income tax rate Adoption of measures to slow down oil and natural gas consumption Lowering of normal retirement age to 60, and reduction of working time		No change								Decrease in personal saving rate Rapid increase in female participatio rate and/or productivity	
mptions												
rformance of foreign economies	Weak		Weak		Vigorous		Weak		Vigorous		Vigorous	
crease in energy prices	Low		Moderate		Moderate		High		High		High	
t immigration (annual average)	Nil after 1980		100,000		100,000		100,000		100,000		100,000 from 1975 to 1980 200,000 from 1981 to 1985	
equences	1975-1980	1980-1985	1975-1980	1980-1985	1975-1980	1980-1985	1975-1980	1980-1985	1975-1980	1980-1985	1975-1980	1980-1985
s national oduct	5.2	2.7	5.7	3.6	5.7	4.1	5.6	3.7	5.6	4.3	5.7	5.2
tput per person employed	2.5	1.5	2.6	1.7	2.7	1.8	2.6	1.8	2.7	2.0	2.7	2.1
ployment	2.7	1.1	3.1	1.8	3.1	2.2	3.0	1.9	3.0	2.3	3.1	2.9
nsumer prices	6.5	6.8	6.6	6.5	6.6	6.9	6.9	6.9	6.9	7.3	6.6	6.7
al disposable per capita income	4.7	2.5	4.9	3.1	4.9	3.7	4.7	3.2	4.6	3.8	4.9	3.9
	1976-1980	1981-1985	1976-1980	1981-1985	1976-1980	1981-1985	1976-1980	1981-1985	1976-1980	1981-1985	1976-1980	1981-1985
ployment rate	5.2	3.8	5.7	4.6	5.6	3.7	5.8	4.3	5.6	3.4	5.6	3.8
nce of payments current account ercentage of P)	-1.6	-2.4	-1.7	-3.5	-1.4	-2.9	-1.4	-2.9	-1.2	-2.4	-1.4	-3.5
rnment fiscal sition (percent- e of GNP)	0.4	-0.1	0.6	-1.2	0.8	-0.5	1.2	0.2	1.3	0.9	0.7	0.2

Table 2

THE 1974-78 PERIOD

	Control solution	Performance indicators
Policies	No change since 1975	Adoption of fiscal measures to stimulate (a) business investment (b) housing construction (c) private consumption
Assumptions		
Performance of foreign economies	weak	weak
Increase in energy prices	moderate	moderate
Net immigration (annual average)	100,000	100,000
Consequences		
	(Average annual percentage change)	
Gross national expenditure	4.7	5.2
Consumer expenditure	4.9	5.5
Total investment	3.8	5.4
- nonresidential construction	5.4	6.0
- machinery and equipment	5.4	7.9
- residential construction	-2.1	0.6
Government current expenditure	4.1	4.3
Imports	4.2	4.2
Exports	3.8	4.8
Real disposable income per capita	4.0	4.8
Output per person employed	2.1	2.2
Output per person employed in manufacturing	3.4	3.4
Employment	2.7	3.1
Differential between Canadian and foreign prices	n.a.	±0.5
Housing starts (thousands)	221	240
Unemployment rate in 1978	5.6	4.5
Unemployment rate of men aged 25-54 in 1975	n.a.	3.5

Economic Council of Canada

Conseil économique du Canada

ews release/communiqué

FOR RELEASE
December 1, 1975

OTTAWA -- The Economic Council today released a study by David L. Emerson on production and location in the Canadian auto industry in relation to the Canada-U.S. Automotive Agreement.* The author examines both the vehicle assembly industry and the parts and accessories industry, arguing that this distinction is important because not only are the two treated separately and differently in the Agreement, but that there are also differences that affect their locational advantages.

The primary objective of the study is to examine some locational implications of possible alteration in the Agreement. However, the type of analysis used has the additional advantage of throwing a good deal of light on a broader subject: the nature and extent of adjustments in an industry as it adapts to more liberalized trade.

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*David L. Emerson, Production, Location, and the Automotive Agreement, published by the Economic Council of Canada, Ottawa, Information Canada, catalogue EC22-34/1975; $2.75 in Canada, $3.30 elsewhere.

Dr. Emerson assesses the impact of the Agreement on the structure of the Canadian automobile industry, and draws on complementary work by a colleague, D. A. Wilton, which assesses the aggregative impact of the Agreement on the Canadian economy and on the industry itself. From this point of view the results were quite spectacular. Without the Agreement, and assuming no compensatory action by the Canadian government, Gross National Expenditure in 1961 dollars would have been 4.7 per cent lower in 1969, and employment would have been 2.8 per cent below the recorded rate in that year. Moreover, value added in both industries in 1969 would have been lower by half; employment in the parts industry lower by one-third; and, in both cases, wages would have been 6 per cent lower.

The effects of the Agreement were most pronounced in the trade sector, where both exports and imports received a major stimulus. In 1970 exports represented over 70 per cent of total output in each automotive industry, while this share in 1961 was only 6.4 per cent in the parts sector and 2.3 per cent in the assembly sector. Emerson considers this increase in reciprocal trade as evidence that more liberal trade arrangements generate intra-industry specialization. It is exactly this kind of specialization within industries that the Economic Council emphasized when it considered the benefits of trade liberalization in its commercial policy report.*

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*Economic Council of Canada, Looking Outward: A New Trade Strategy for Canada (Ottawa: Information Canada, 1975).

[illegible]

[illegible] of the Canadian automotive industry, [illegible] monetary work by a colleague, D. A. Wilton, which examined the respective impact of the Agreement on the Canadian economy and on the industry itself. From this point of view the results were quite [illegible]. [illegible] policy action by the Canadian government, value added [illegible] in 1961 dollars would have been 5.7 per cent lower in 1969, and employment would have been 2.6 per cent lower than recorded in that year. Moreover, value added in [illegible] would have been [illegible] employment in the parts industry lower by one third. [illegible] In both cases, wages would have been [illegible] per cent lower.

The effect of the agreement was most pronounced in the parts sector, where both imports and exports recorded a major increase. In 1970 exports represented over 70 per cent of total output in the automotive industry, while this share in 1961 was only 6.4 per cent [illegible] per cent in the assembly sector. [illegible] coefficient [illegible] [illegible] It is [illegible] [illegible]

[illegible]

The analysis of industry structure also confirms this tendency towards specialization. Since the Agreement, automobile producers have reduced the number of models manufactured in Canada, and produced something closer to what might be considered an optimum volume (180,000 to 220,000 vehicles of the same model per year). Structural modifications increased efficiency in the parts and accessories industry by more than 30 per cent; in the assembly industry, efficiency almost doubled. But, while "dramatic changes in efficiency occurred in the vehicle manufacturing sector... the parts case illustrates the weaknesses in approaches to trade liberalization based on 'pre-trade' industrial structures. It shows that passing judgment on the free trade cost efficacy of an industry based on pre-trade industrial structure can be totally misleading." Thus, even though the effects of the Agreement should not be taken to reflect what could happen in a full free trade situation, they do, as the Council noted, provide an illustration of the impact of certain aspects of trade liberalization, especially with respect to changes in industry structure.

On the basis of these new structures and 1969 data, Emerson shows that there are more advantages to manufacturing parts and accessories in Ontario than in the East North Central Division of the United States; for vehicle assembly, however, there appears to be a calculated cost disadvantage in Ontario. Reduction of the wage gap between the two countries since 1969 has probably served to weaken the position of the auto parts industry in Ontario,

although the downward movement of the exchange rate has tended to offset this effect. Thus, Emerson concludes,

> "The Agreement is basically similar to other kinds of industrial protection, where the objective is normally to protect employment and where the cost largely takes the form of higher prices to be borne by the consumer. In at least one respect, the Agreement is probably a far superior form of protection since it did permit cost efficiency gains through rationalized production for the North American market. Such efficiency gains could be passed on in terms of higher wages to Canadian workers. In addition, there have been some gains for Canadian consumers relative to the pre-Agreement situation."

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Economic Council of Canada

Conseil économique du Canada

news release/communiqué

FOR RELEASE
February 3, 1976

GOVERNMENTS AND CONSTRUCTION INSTABILITY

OTTAWA -- The Economic Council today released a study by Neil Swan on the governments' role in construction instability and on the different methods that might be used to stabilize activities in a sector employing over 600,000 workers and accounting for 60 per cent of total investments.*

Governments could have caused instability in construction either directly through the timing of their own expenditures, or indirectly through the administration of monetary and fiscal policy. According to whether the time path of these purchases or these policies coincide with a period of high or low construction activity in Canada, they are likely to either aggravate or alleviate the industry's instability. From an analysis of the instability observed over a period of twenty years -- from 1951 to 1970 -- Neil Swan concludes that, considering the size of their expenditures, the three levels of government combined accounted for only a small share -- approximately one-quarter -- of the instability of the sector's total turnover. He

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*N. M. Swan, Governments and Construction Instability, Economic Council of Canada, Information Canada, Ottawa, cat. no. EC22-33/1975, price: Canada, $3.00, other countries, $3.60, 101 pages.

notes, however, that almost two-thirds of the instability was due to spending by Crown corporations, whose decision-making is substantially and appropriately independent of government control in the short and medium term. The governments' indirect responsibility, mainly through the use of monetary policy, was also rather small. Residential construction might have been as much as 20 per cent less unstable if monetary policy had not been used for general stabilization purposes; other types of construction would have been virtually unaffected.

The fact that only a low percentage of responsibility for observed instability can be traced to governments, does not mean that they could do nothing to reduce it. Greater construction stability would result in a reduction in the amount of unemployment experienced by construction workers, and a fuller use of construction equipment. Further benefits would be obtained from improvements in productivity, reductions in bankruptcies, and decreased price pressures. On the cost side, the major problem would be the extra cost and inconvenience that would be imposed on households, firms, and governments if they were required to adjust the timing of their construction expenditures, as they would have to if greater stability were to be achieved. According to Neil Swan, if one-third of the instability were eliminated, the quantifiable benefits (the major ones) would be more than $100 million a year in 1971 dollars.

Several possible policies for stabilizing construction are considered, including: adjusting the time path of spending on major projects, such as the James Bay Development and pipeline construction; smoothing the time paths of particular categories of government

expenditure; scheduling government expenditures, either alone or jointly with private spending; imposing market incentives and disincentives to counter the construction cycle; making use of general monetary and fiscal policy on behalf of the industry; introducing measures specific to residential construction; and making appropriate variations in the rates of federal matching grants for provincial/municipal expenditures.

The alternative types of stabilization policy differ in a number of ways, and the advantages and disadvantages of each should be assessed in terms of a number of criteria. After a systematic evaluation of the costs and benefits associated with each policy, the author concludes that the best two methods of stabilizing are adjustments in the time path of expenditures on major projects, and the use of revenues from taxes on construction expenditures in boom periods to pay for subsidies to encourage construction expenditures during slack periods.

Economic Council of Canada

Conseil économique du Canada

news release/communiqué

FOR RELEASE
February 6, 1976

EFFECTIVE PROTECTION AND THE RETURN TO CAPITAL
by B. W. Wilkinson and K. Norrie

OTTAWA -- Our understanding of the impact of tariffs on a country's industries and pattern of production has been greatly increased in recent years by the development of the concept of effective protection and the distinction made between nominal tariffs (the rate of duty on imports listed in a country's tariff schedule) and the effective tariffs. The nominal tariff allows a manufacturer to price his product up to the price of a competing imported product, plus the tariff and the exchange rate. In contrast, the effective tariff is a calculation of the total protection afforded by the nominal tariff on the finished product together with the cost effect of other nominal tariffs on intermediate components that the manufacturers purchase; that is, the effective tariff measures the overall protection for an industry when it adds value to purchased inputs in processing its products.

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*B. W. Wilkinson and K. Norrie, Effective Protection and The Return to Capital, Economic Council of Canada, Information Canada, Ottawa, Catalogue No. EC 22-29/1975, price: Canada, $3.00; other countries, $3.60; 100 pages.

There are many ways of expressing this effective protection. Traditionally, it has been taken as an increase in value added made possible by the protection for each industry. Effective protection in Canada has received a new detailed examination in a study by B. W. Wilkinson and K. Norrie just released by the ECONOMIC COUNCIL OF CANADA. Political interest in Canada centres on the impact of tariff reduction. Consequently, the effective rates in this work, unlike those in earlier studies, are computed as the percentage reduction in value added that would occur for each industry if all tariffs on inputs and outputs were removed.

Effective tariffs are calculated for 11 primary industries, 82 secondary (manufacturing) industries and 10 tertiary industries. The primary industries, because of the 0 or low nominal tariff on their outputs (and inputs), enjoy no or only limited effective protection. In contrast, many of the manufacturing industries have substantial positive protection ranging as high as 40 per cent or more. The most heavily protected manufacturing industries, and therefore those which may expect to experience the most severe adjustment problems if tariffs are removed, are clothing and textiles, leather products, furniture, electrical assemblies, food and beverages, copper processing, chemical products and petroleum and coal products. Particularly noteworthy, perhaps, is the protection afforded the food and beverage sector -- a sector not always recognized as being heavily protected.

Throughout the study, where choices among techniques are necessary, the authors opted for those which produce maximum estimates of the adverse effect upon manufacturing industries of tariff removal. Consequently, the difficulties for some industries of coping with a free trade situation may not be as great as the numbers suggest. This would be true particularly if manufacturing firms are able to improve their managerial efficiency and achieve greater scale economies as tariffs are eliminated.

By assuming that the tertiary sector -- including construction and services -- does not pass on increased costs of inputs, the authors estimate effective rates for this sector as well. The negative effect of protection on such industries is surprisingly small, except for construction.

The nominal and effective rates computed are for the years 1961, 1966 and 1970. Over this period both sets of rates decline on average. But from 1961 to 1966, effective protection on one-third of the manufacturing industries actually increases, and again in 1970, 13 per cent of the manufacturing industries enjoy higher effective protection than they had in 1966. In general, the dispersion of effective rates for manufacturing grows over the decade under review.

Norrie and Wilkinson also computed the effect on rates-of-return to capital from tariff removal, assuming payments

to labour remain unchanged in the event of free trade. The industries identified, using effective tariffs, as facing the gravest potential difficulties if protection is revoked, are generally the ones that would suffer the most drastic reduction in return to capital under these circumstances.

In an appendix the authors provide estimates of effective rates under varying assumptions about the weighting of imports. Using the traditional concept of effective protection as the percentage increase in value added made possible by the tariff protection, they also compare their results with earlier work on Canadian effective tariffs.

Canada

Economic Council of Canada

Conseil économique du Canada

ews release/communiqué

FOR RELEASE
February 25, 1976

Construction Instability in Canada

OTTAWA -- The study by Dr. L. Auer* is one of several studies on construction instability completed by the Economic Council of Canada. It describes economic growth and instability of all major sectors of the Canadian construction industry. The principal objectives of this study are: to identify the main sources of construction instability, to trace the impact of construction instability to the rest of the economy, to appraise the merits of various stabilization policies, and to project future developments.

Dr. L. Auer found that construction investment in Canada was indeed very unstable and that, for several decades now, it has contributed more to instability of the economy than all other investment sectors combined. Although trends in stability and growth have improved over the past three decades, compared to most other countries Canada continues to rank high in construction instability and low in growth.

In Canada each of the three principal demand sectors for construction -- residential, private nonresidential, and government -- contributed in roughly equal proportions to the instability of total construction expenditures. Among various nonresidential sectors, transport, government, and mining contributed over one-third to construction instability. Among manufacturing industries, the pulp and paper, primary metal, and automotive industries accounted for over one-half of the construction instability. To the extent that the various sectors of the economy were interdependent, the instability of construction was transmitted to manufacturing and the rest of the economy. In the process the instability was accentuated by the "multiplier" effect.

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*L. Auer, Construction Instability in Canada, Economic Council of Canada, Information Canada, Ottawa, Cat. No. EC22-31/1975, price: Canada, $2.75; other countries, $3.30.

Instability in construction varied from one region to the next. During the early 1960s, for example, most of the instability came from Ontario; in later years it originated primarily in Quebec.

Over the past two decades a more stable growth of the money supply could have reduced the instability of residential construction and, combined with greater stability in the fiscal policies of the government, also could have reduced the instability of industrial construction. Controls aimed at stabilizing construction prices and industry-output prices would not have reduced, but only aggravated, the instability of construction. The most effective means of reducing the instability in construction activities would have been a policy package combining a more stable growth of the money supply and a more stable disbursement of government grants with a partial rescheduling of major government-sponsored construction projects. Had policies been designed to integrate better the resource boom of the 1950s--the construction of the St. Lawrence Seaway and the Trans Canada Pipeline--the instability of construction could have been reduced by an estimated 30 per cent.

The policy recommended here would not only have reduced the instability of construction activities but also reduced the instability of labour employment in the total economy by 8 per cent. This could have yielded an annual benefit of over $100 million or roughly $1.8 billion over the years 1955 to 1968.

If current expectations and plans for energy developments materialize, a sharp acceleration in construction investment can be expected.

In view of these recurrent periods of economic instability and in view of their costs to society, according to the author, it is urgent to explore the potential for greater economic stability through improved scheduling of large-scale government-sponsored construction projects.

Canada

Economic Council of Canada

Conseil économique du Canada

news release/communiqué

FOR RELEASE
March 2, 1976

OTTAWA -- Construction workers are generally much better paid than hourly wage earners in other sectors, but their jobs are much less stable. Traditional wage differentials between regions persist, with Maritime tradesmen averaging less than three-quarters the hourly rate for Ontario or British Columbia. Moreover, although modernization and prefabrication have reduced the demand for unskilled labourers in construction, their hourly wages relative to the skilled trends have improved in recent years. Nonetheless, unorganized construction workers and tradesmen in small firms still earn 10 to 40 per cent less per year than their counterparts in large unionized firms. These findings are part of a study by Robert A. Jenness published today by the Economic Council of Canada.*

Some 650,000 workers are employed in the construction industry, representing between 7 and 8 per cent of total employment. They include a permanent construction labour force of about 500,000 workers, together with others who drift in and out of the industry

*Robert A. Jenness, Manpower in Construction, Economic Council of Canada (Ottawa: Information Canada, 1976), Cat. No. EC 22-35/1975. Price: $2.75 (Canada), $3.30 (other countries).

each year in response to seasonal hirings and the pace of cyclical activity. And while cyclical employment instability in construction runs twice as high as in manufacturing, and four times that in the transport, communications, and public utilities sectors, seasonality alone gives rise to twice as much change in one month's employment as do cyclical factors in a whole year. Between winter and summer construction employment can increase by 50 per cent, while in winter unemployment levels in the industry run from 18 to 25 per cent. As a result, even the permanent core of tradesmen average less than 40 weeks work per year and over half of all construction industry workers draw close to three months' unemployment insurance benefits each year. The result, according to estimates of the author is that in 1974, for instance, other industries and Canadian taxpayers indirectly subsidized the construction industry through UIC contributions to the tune of $170 million. And this does not take into account the real costs of idle plant and equipment that accompanied the seasonal unemployment.

In analysing other features of construction manpower, the author considers such factors as immigration, and the occupational, sectoral, and geographical mobility of construction workers. He notes also that with the dramatic increase in construction wage rates from 1966 on, compared to other sectors, the annual income of construction tradesmen rose from being 20 per cent below the Canadian male average in 1961, to being higher than average male earnings in 1971, even though they worked a considerably shorter work year.

The author notes that government job-creating programs such as LIP have undoubtedly helped to reduce seasonal unemployment in the industry but probably not to the extent claimed since some of the "newly created" jobs may have simply replaced other work that might otherwise have been undertaken.

R. Jenness believes that, in the future, concern should focus not so much on the employment security of organized tradesmen now in the industry, or on regulating entry, but rather on protecting unorganized, older, or unskilled workers, and on easing the exodus of those being displaced.

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Economic Council of Canada

Conseil économique du Canada

ews release/communiqué

FOR RELEASE
March 11, 1976

OTTAWA -- Because of its importance for the Canadian economy, numerous studies have been published on Canada's foreign trade. Most of them have been commodity-oriented. However, Canada's trade with the rest of the world can be examined another way. When a country exports goods and services, it is in fact selling abroad the contribution of the factors of production -- labour, capital, and natural resources -- incorporated in these products. Similarly, the importation of goods can be seen as a substitution of foreign factor inputs for domestic factor inputs. In that light, trade may be considered as merely an exchange of inputs.

One of the purposes of the study* by Dr. Harry Postner, published today by the Economic Council, was to determine the factors of production that are exported from Canada and those that are imported into this country. Such an analysis is very important for the development of a commercial policy. It affords us a better understanding of

*Harry H. Postner, assisted by Don Gilfix, Factor Content of Canadian International Trade: An Input-Output Analysis, published by the Economic Council of Canada, Information Canada, Cat. No. EC22-32/1975. Price: Canada, $3.75; other countries, $4.50.

our comparative advantage and therefore helps us to identify the types of activity that it would be in our best interest to develop. It also permits us to evaluate, in terms of productive factors, the effect of multilateral liberalization of trade.

Postner examines the commodity pattern of Canadian trade in the 1960s in terms of its constituent elements: labour, classified by level of formal education; physical capital, in terms of both structure and machinery; and natural resource products, both renewable and nonrenewable categories. He notes that in comparison with 1961, Canada had become, in net terms, a larger exporter of nonrenewable natural resources and a smaller importer of the services of more highly skilled labour by the end of that decade. He points out that, generally, the various bilateral trade flows between Canada and our major trading partners follow a similar pattern, although to varying degrees. Our exports tend to be more natural-resource intensive than our imports; our imports, more labour-intensive than our exports, especially in terms of highly skilled labour.

The author calculated that, at the end of the 1960s, 107.9 man-years of labour were required to produce a typical million-dollar bundle of Canadian exports, while 110.3 man-years of labour would have been required to produce in Canada the commodities included in a typical million-dollar bundle of imports. At that time, our imports involved more labour --

in fact, 2.4 man-years more -- than our exports. Therefore, he concludes, Canada's international trade amounts, in large part, to a net exchange of natural resources and the services of capital for the services of labour.

Postner goes on to show that a balanced shift in Canadian trade, from the United States to the EEC and Japan, if it were in line with the commodity composition of trade that prevailed in 1970, would involve, in net terms, much larger exports of natural resources and complementary fixed capital services. Such a balanced increase in our trade with the United States would lead to a decrease in the demand for labour, especially high school-educated labour, while the displacement of university-trained labour would be relatively slight. By contrast, an increase in our trade with the United Kingdom, the EEC (six), Japan, and EFTA would result in an increased demand for labour with elementary education -- but only at the cost of significant decreases in the employment of high school- and university-educated labour.

Economic Council of Canada

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ews release/communiqué

FOR RELEASE
March 31, 1976
at 4 p.m. (EST)

PEOPLE AND JOBS

A Study of the Canadian Labour Market

Scope of the Study

OTTAWA -- In December 1972, the Economic Council of Canada announced that it was undertaking a comprehensive study of the characteristics and functions of the Canadian labour market. Because the Council's Annual Reviews normally consider aspects of the demand for labour, this project was to focus mainly on the supply side of the labour market -- that is, on workers and those seeking work.

The report of this study,* published today, contains an examination of the structure and character of the Canadian labour force and unemployment and an analysis of the impact of selected government programs and policies on individual or group decisions to work or not to work. It also includes a discussion of the imbalances

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* *People and Jobs: A Study of the Canadian Labour Market*, Information Canada, Ottawa, Cat. No. EC22-42/1976; price: Canada, $6.00; other countries, $7.20.

between the supply of, and demand for, certain types of labour. In addition, because work is not performed in isolation from changing attitudes and patterns of behaviour or from family considerations, the report goes beyond consideration of purely economic issues and takes account of pertinent social and institutional factors.

The research on which the Council's conclusions and recommendations are based thus involved analysis of many and varied aspects of the labour market and the world of work.

Structure of the Report

The 300-page report is divided into 11 chapters and eight appendixes; 88 statistical tables and 49 charts are included . The chapters are grouped in two parts. The first part summarizes the main findings of the research and presents the Council's conclusions and recommendations on various issues. The second part (Chapters 4 to 11) contains the analysis on which the findings were based. Methodological considerations and more detailed statistical information are found in the appendixes. Chapter 2 summarizes the main findings of the research and analysis contained in part 2, and it is to this chapter that one should turn for a brief, initial understanding of the principal characteristics of the Canadian labour market. Chapter 3 presents the conclusions the Council has drawn, and its five recommendations -- which are discussed in the three releases attached.

Further Information

A group of staff researchers and outside consultants, under the direction of Robert A. Jenness, participated in this project. A

Economic Council of Canada / Conseil économique du Canada

news release/communiqué

FOR RELEASE
March 31, 1976
4.00 p.m. (EST)

STATISTICAL MEASURES AND THE CANADIAN LABOUR MARKET

OTTAWA -- In its report, *People and Jobs*,* published today, the Economic Council states that many changes that have occurred recently in the characteristics and structure of the labour market are not well understood. The Council believes that this is a result of the fact that not only are there deficiencies in the way data are used and interpreted, but also that a number of gaps exist in the types of information available (p. 34). Our knowledge of the labour market is based mainly on the monthly or quarterly data on the stocks of employed and unemployed persons, and on job vacancies (p. 79). Given the complexity and magnitude of the flows that affect the workings of the labour market and its recent transformation, the Council argues that these data are inadequate.

The unemployment rate, for instance, is often used as a measure of the extent to which labour resources are used, as

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***People and Jobs: A Study of the Canadian Labour Market*, Information Canada, Ottawa, Cat. No. EC22-42/1976, $6.00 in Canada, $7.20 in other countries.

an indicator of the performance of the economy, and as an indication of the extent of hardship for families and individuals (p. 35). In fact, however, the message of the unemployment rate today is rather different from that of a generation or even a decade ago and its significance has been profoundly altered (p. 211).

The aggregate unemployment rate is no longer a complete indicator of idle labour capacity, since employers experience increasing difficulty in finding workers with the required qualifications, while many workers are unable to find acceptable jobs. Apart from the unemployed, there are increasing numbers of women and young people who are not part of the labour force in a statistical sense but who would nevertheless like to find jobs. The Council believes that since the threshold of the Canadian labour market is now very fluid, improved methods of measuring employment and unemployment are essential (p. 30).

In addition, the unemployment rate no longer serves as a satisfactory indicator of economic performance or of tightness in the labour market (p. 199). Since there is no single market for labour, there may be wage-increasing bottlenecks in certain occupations, professions, or regions, while the aggregate rate continues to indicate overall slackness in the economy. Similarly, buoyant economic activity and high inflation rates have, particularly in recent years, been accompanied by high unemployment levels (p. 200). *The Council believes that the seasonally adjusted changes in nonagricultural employment or the unemployment rate for males in the 25-44 or 25-54 age groups could be a more useful measure of economic activity.*

Finally, inferences about economic hardship for families and individuals on the basis of aggregate unemployment rates can be quite misleading, because of the build-up of social programs and the increase in the number of wage-earners per family (p. 35). Average money income per family in Canada increased by 67 per cent between 1967 and 1973, from $7,602 to $12,716. The increase in average per capita family income in current dollars was even larger -- 82 per cent. This difference is almost entirely attributable to a greater number of workers per family. Half of all families today report two or more income-earners (p. 117). In half the cases where unemployment occurred in 1971, the average family income was higher than that of families with no unemployment (p. 121 and Table 6-11). In 1961, five out of ten families subjected to unemployment relied on social programs as their only source of income, whereas in 1971, 70 per cent of families had at least another member at work. Moreover, of the 22.5 per cent of all families who experienced some unemployment during 1971, it is estimated that less than one in five had incomes below recognized poverty lines. *In short, poverty in real terms, and in an absolute sense, is no longer a phenomenon closely related to the labour market* (pp. 121-22).

It must be recognized, however, that all unemployed workers are not affected equally. The economic and psychic costs for a person who has been laid off and has experienced a frustrating job search for many months are different from those of the worker who quits his job and undertakes a shorter but successful search for a better one. In other words, the duration of unemployment is an important factor.

Finally, it should be noted that hardship results not only from unemployment, but also from low wages (p. 212). *The Council believes that, rather than relying on the unemployment rate as an indicator of hardship, it would be more useful to concentrate directly on the adequacy of incomes, and for this purpose to improve data linking the income of individuals and families with their work activity* (p. 35).

In the Council's view, supplementary information is required for a balanced interpretation of the meaning of the aggregate unemployment rate, especially if it is to be used in government policy-making. *Moreover, the increasing participation of secondary workers in the recent past makes the unemployment of family heads a more meaningful measure than the conventional one in which primary breadwinners and supplementary earners seeking part-time work are weighted equally* (pp. 211-12).

Just as the aggregate unemployment rate hides some aspects of reality, overall participation rates do not reveal the diversity of real situations. Statistics on the labour force or employment are "snapshots" -- that is, they describe the state of the labour market at various points in time. These "stock" figures, however, do not reveal anything about the movements or "flows" of people within -- or into or out of -- the labour market during the period under study. For example, the net increase in the total labour force between December 1971 and December 1972 was close to 0.3 million. During this period, however, there was a total movement from outside the labour force into employment of 2.5 million and into unemployment of 0.5 million. These flows

were offset by movements in the reverse direction of 2.7 million and 0.2 million, respectively. Altogether, taking into account net immigration and withdrawals due to deaths, close to 6 million persons changed their labour force status in 1972 -- 20 times the net increase! The actual amount of movement in the labour force is greater still, as many people move directly from one job to another without experiencing unemployment or a spell out of the labour force (p. 83).

Relatively little information is available on changes in the employment of individuals and the extent of job turnover (p. 36). However, the Council was able to establish, in a survey of employers and employees, that worker turnover averaged 28 per cent -- that is, more than one worker in four changed jobs in one year.

The Council believes that monthly turnover and job separation data are required to enable us to distinguish between turnover related to layoffs and that attributable to withdrawals and voluntary job changes (p. 89).

In sum, an understanding of overall unemployment rates can only be readily obtained by considering more than the monthly stock figures on the Canadian labour market. Moreover, it is also evident that we can no longer take the view that the labour force is mainly composed of workers who stay put, holding one job year in and year out, while only a small number change jobs frequently and experience recurring unemployment (pp. 93-4). To take account of the continuous flows into and out of the labour force, and to obtain the actual number of persons who worked

some time during 1975 in full-time, part-time, or casual jobs, an estimated 2.5 to 3 million persons must be added to the reported average labour force of 10 million. Of the approximately 13 million total participants in the labour force at one time or another during 1975, as many as 40 per cent, or possibly more, changed jobs with or without a bout of unemployment, entered, re-entered, left the labour force, or became unemployed (p. 81).

Consequently, to improve our knowledge of the labour market, *the Economic Council recommends that Statistics Canada, with the co-operation of other departments and agencies, develop, publish, and analyse additional information with respect to employment, unemployment, turnover, gross flows, and the wages and incomes of families and individuals.*

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For further information

Patrick Robert,
Economic Council of Canada,
P.O. Box 527, Ottawa (Ontario) K1P 5V6
Tel: (613) 993-3591

Economic Council of Canada

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ews release/communiqué

FOR RELEASE
March 31, 1976
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ECC PREFERS JOB CREATION TO UNEMPLOYMENT INSURANCE

OTTAWA -- Extensive movements of individuals within the labour market are the result of a process of search -- by employees for satisfying jobs and by employers for workers to do specific tasks. The function of the labour market is to match workers with jobs. The process is complex and may become increasingly so, as the flows of workers and jobs increase and as more and more marginally attached persons enter the labour force (p. 93). In a report, *People and Jobs*,* published today, the Economic Council of Canada considers measures that would improve the workings of the labour market and reduce the unemployment resulting from imperfections in this system.

The Council also notes that unmet needs and idle human beings coexist and that, with a suitable catalyst, they might well be conjoined productively (p. 42). The Council believes that rather than having the unemployed remain dependent on unemployment insurance, a useful alternative would be to create socially productive jobs through an auxiliary employment program -- the subject of the Council's third recommendation.

***People and Jobs: A Study of the Canadian Labour Market*, Information Canada, Ottawa, Cat. No. EC22-42/1976; price: Canada, $6.00; other countries, $7.20.

An examination of the relationship between the unemployment and job vacancy rates over the last few years suggests that much of the unemployment in Canada is caused by factors other than deficient overall demand. The Council found that the task of matching workers and jobs is not easy, nor is the process always effective.

In theory, in a perfect labour market public and private employment agencies would know about all job vacancies and all available personnel. In Canada, however, neither employers nor employment agencies are obliged to register their vacancies with Canada Manpower Centres (CMCs) and, even though their services are free to the users, CMCs are used for only 25 to 30 per cent of the total number of new hirings that occur during the year, and at most three-quarters of all job seekers register with CMCs (p. 132). In the Council's view, it is clear that a system that is expected to place three-quarters of those looking for work in one-quarter of the available jobs has shortcomings (p. 133).

There is no doubt, however, that in attempting to match jobs and workers' skills the Canada Manpower Training Program has helped to raise the qualifications of many Canadians (p. 134) and thus eased the process somewhat. Similarly, the Local Initiatives Program (LIP) has created employment for some people. But in retrospect, it appears that more was expected of these programs than is feasible (p. 134). For a substantial majority of participants, LIP jobs provided temporary sources of employment income, to be followed by unemployment, withdrawal from the labour force, another LIP job, social assistance or some

combination of these alternatives (p. 137). In Quebec in 1972-73, for example, 70 per cent of the people who worked on LIP projects subsequently fell back on government income support. On the basis of the results of its study, the Council believes that LIP does not, as once hoped, constitute a significant stepping-stone to regular employment for unemployed, marginal, or poor workers (p. 137).

The Council has observed a host of considerations apart from wages that affect workers' decisions to take or reject particular jobs -- in particular the existence of unemployment insurance and other income support programs. There can be little doubt about the efficacy of the Unemployment Insurance Act. By making possible a wider sharing of the unemployment risk, it ensures more complete protection of workers who traditionally bear the twin burdens of low wages and high unemployment (p. 157). The need for such a system is borne out by the fact that four out of every five beneficiaries are unemployed for reasons beyond their control.

This is not to say that the program has been without administrative flaws or has not been abused (p. 31), a situation that has already led to interventions by the Unemployment Insurance Commission and to amendments to the Act at the end of 1975. The increase in benefits has provided some disincentive to search, notably among women and workers with low incomes. In this context the Council notes that nearly 40 per cent of unemployment insurance claimants do not show up at Canada Manpower Centres to apply for jobs corresponding to their qualifications (p. 40).

Persons who draw high weekly unemployment insurance benefits have little incentive to accept lower-paying jobs (p. 39). The Council also observes that roughly one out of three employed Canadians would rather collect unemployment insurance than work for the minimum wage. This is not surprising since one out of three draw, or would draw, higher unemployment benefits than the minimum wage in their province (p. 172). Many claimants tend to delay their return to work, and many young people seeking interesting jobs are prepared to continue their search for a suitable one rather than accept work they do not like (p. 31).

Consequently, the Council recommends continued review of the provisions of the Unemployment Insurance Act and its accompanying regulations and administration. The objectives of the review would be to limit abuses of the Act and its regulations and to encourage claimants to take available jobs that are compatible with their skills and abilities. The Council also recommends re-examination of the services offered by Canada Manpower Centres, with the view to linking these services more effectively to those of the Unemployment Insurance Commission and increasing the effectiveness of the training and matching of jobs and workers (p. 42).

Apart from measures designed to improve the operation of the labour market, the Council believes that if a significant amount of unemployment is to be eliminated, jobs must be created to use the skills of the unemployed in their locales (p. 42). By the same token, taxes that are now channeled to unemployment insurance claimants might well be more efficiently used to

create jobs that help to meet recognized common needs. Productive employment would offer substantially more economic benefit than transfer payments, both to the individuals concerned and to society (p. 43).

Governments at different levels already contribute to the creation of jobs in many ways; among the more obvious programs, DREE initiatives have proved useful but expensive per job created, and LIP and OFY have been relatively modest in scope and have supported individual projects for a short duration. They were not designed to serve as a direct alternative to unemployment insurance, although no doubt they did help to reduce the number of claimants (p. 45). Therefore, *the Economic Council recommends that the federal and provincial governments take steps immediately to develop a program to create continuing auxiliary jobs linked to the unemployment insurance system and aimed particularly at groups and areas faced with high unemployment. It would work through conditional grants to the provinces, municipalities, social service agencies, and participating business enterprises, and would be available to persons who would normally be eligible for UIC benefits* (p. 46).

This auxiliary job program would not be designed as a special measure to combat cyclical unemployment, but as a continuing mechanism to provide jobs for a great many persons who would otherwise draw unemployment insurance benefits. In 1975, these benefits totalled over $3 billion, roughly half of which was financed by the federal government. If the objective were to create from 100 to 200 thousand jobs, the total financial commitment could be in the

order of $1 billion. But a significant portion of this expenditure would be equivalent to existing unemployment insurance commitments (p. 43).

The Council believes that it would be important that access to such a program be closely fitted to the administrative provisions applying to persons under the UIC scheme, as the object of the program is to provide jobs for those who are looking for work. There would still be room, however, for making more effective use of certain of our labour resources.

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For further information

Patrick Robert,
Economic Council of Canada,
P.O. Box 527, Ottawa (Ontario) K1P 5V6
Tel.: (613) 993-3591

Economic Council of Canada
Conseil économique du Canada

ews release/communiqué

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SPECIAL GROUPS AND INDUSTRIAL RELATIONS
IN THE CANADIAN LABOUR MARKET

OTTAWA -- The Economic Council believes that by improving our knowledge of the labour market and implementing a program designed to replace unemployment insurance benefits with job offers a better balance between workers and jobs may be achieved. However, in a report* on the labour market published today, the Council notes that there are people who would like to work but have few opportunities to do so. Many persons living in outlying areas, young people, women, the handicapped, and people on welfare are in this situation (p. 47). While the participation of these special groups in the labour force may become particularly important in a few years' time when the natural growth of our labour force will be tapering off to very low levels, the Council believes that additional help is needed so that these groups may participate fully in the labour market.

***People and Jobs: A Study of the Canadian Labour Market*, Information Canada, Ottawa, Cat. No. EC22-42/1976; price: Canada, $6.00; other countries, $7.20.

The proportion of women in the labour force has risen from a little over one-fifth in the early 1950s to more than a third now (p. 72), and our evidence indicates that more would work if there were opportunities to do so while fulfilling their family obligations (pp. 47-48). This may require incentives and opportunities to enable them to work at least part-time without jeopardizing their right to social assistance, less rigid work schedules, and improvement of day-care programs (p. 48).

In this context, the report shows that the recent expansion of day-care facilities has been quite remarkable. Less than a generation ago formal day-care facilities were virtually non-existent. In the 1971-74 period, however, the number of day-care centres in Canada doubled and the number of spaces in the centres more than tripled (p. 162 and Table 8-8) to more than 55 thousand. Despite these impressive developments, in 1974 fewer than 3 per cent of the children under 3 years of age and fewer than 9 per cent of the children between the ages of 3 and 5 were being looked after in day-care centres (p. 163), although the participation rate for mothers with only pre-school children had reached nearly 30 per cent (p. 162). *The Council believes that there is a need to ensure, through both public and private measures, that child care is adequate and that options for both working mothers and those looking after their children are more rewarding* (p. 164).

About a quarter of Canada's labour force is now composed of people aged 24 or younger, but in 1974 youth aged 14 to 24 accounted for close to half of the unemployed (pp. 75-6). In its analysis of the participation of young people, including

students, in the labour force, the Economic Council suggests that one of the main reasons for this high unemployment level is that many enter the labour force with little appreciation of the world of work, and find that there is a mismatching of their educational training and expectations with the realities of the jobs they are offered (p. 47). There is no evidence that young Canadians are less inclined to work than their parents. However, with rising levels of education, they tend to attach less importance to the economic aspects of jobs and more to the content. In the process, it seems likely that they will, of their own volition, change jobs more frequently (p. 173), and that much of the unemployment among younger workers reflects their search for more satisfying or secure jobs (p. 76).

In its discussion of the participation of older workers, the Council notes that despite the lowering of retirement age, a large number continue working. In 1974, close to 30 per cent of the men and 8 per cent of the women aged 65 to 69 years were working or looking for work (p. 169). In the Council's view, older persons represent a pool of experience and a vital segment of the labour force, and their importance as a proportion of the population is growing. For many older workers, a more progressive transition out of the labour market would be desirable, while for others some form of employment after retirement could be rewarding for both the individual and society (p. 170).

The Council also examines the cases of welfare recipients and the mentally and physically handicapped. Of the more than 500 thousand welfare recipients, about one out of four could be considered

employable; they do not work because of the lack of jobs rather than a reluctance to work. The handicapped account for about 3 per cent of the population, and Canada's record on vocational rehabilitation is not a proud one by comparable standards. Annual federal-provincial expenditures have been limited to about $15 million, whereas Sweden spends many times more per capita (pp. 48-9). The Council advocates the use of more resources and recommends that, beyond adopting special measures for the employment of the disabled, more general arrangements be extended to facilitate their working lives, and indeed their daily lives, whether in protected workshops or in general working environments (p. 49).

The Council's analysis of the situation of special groups led to the recommendation that *the private sector, including enterprise and labour, and all levels of government review their efforts and funding priorities with a view to enriching the opportunities, career content, flexibility, and productivity of the work environment for young and older workers, women with young children, and persons who are physically or otherwise handicapped or disadvantaged* (p. 50).

The Economic Council also examines the question of industrial relations, the subject of its fifth recommendation. It notes with some disquiet the growing incidence of industrial disputes and the fact that, on average, the length of time required to settle strikes in Canada is three times that in most other western industrialized countries. But the Council recognizes that in Canada, as in all of North America, job security, safety provisions, and grievance procedures have emerged primarily through the collective

bargaining process, and that most of these elements accrue formally only in the organized sectors (p. 50).

Although the advantages of unionization are often extended to other workers and provincial governments provide at least a minimum of corresponding protection for unorganized labour, there remain differences between unionized and non-unionized workers (p. 50). A recent study of union/non-union wage differentials in Ontario enterprises shows that unionized production workers in manufacturing receive wages that are 10 to 17 per cent higher than those of unorganized workers. The study also found that, on average, organized employers contributed almost twice as much to benefit plans and half again as much to premium pay for overtime as those in the less organized sectors (p. 109).

Thus there are, in the Council's opinion, many workers who, for lack of a countervailing force, need legislative protection (p. 114). There are also a number of institutional arrangements that impede the efficient utilization of labour. The Council is concerned, for example, about the growing compartmentalization of employment that is apparent in the tendency for employers, professional associations, and licensed groups to establish unnecessary skill requirements or other barriers to jobs (p. 51). *The Council therefore believes that provisions dealing with working conditions should be harmonized to remove obstacles to efficient utilization of all labour resources.*

In the area of industrial hygiene, the Council argues that there is a need for additional protection for workers against

industrial diseases, for more emphasis on research and training in professional hygiene, and for increased uniformity of occupational health standards administered in both federal and provincial jurisdictions (p. 52).

The Council recommends that federal and provincial governments, in conjunction with labour and management, accelerate their efforts to reduce discriminatory entry barriers to jobs; to ensure adequate standards of employment and income for unorganized workers, including the removal of barriers to collective bargaining, the extension of minimum-wage coverage, and notice and severance pay in the event of layoff; and to provide better protection against occupational health hazards.

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For further information

Patrick Robert,
Economic Council of Canada,
P.O. Box 527,
Ottawa, Ontario.
K1P 5V6
Tel. : (613) 993-3591

Economic Council of Canada

Conseil économique du Canada

Government Publications

news release/communiqué

FOR IMMEDIATE RELEASE
April 29, 1976

OTTAWA -- The ways in which taxation may affect present and future Canadian trade are explored in a study* released today by the Economic Council of Canada as background to its commercial policy report, "Looking Outward -- A New Trade Strategy for Canada". In his study, Professor J. R. Melvin of the University of Western Ontario states that taxes can cause trade, and taxes could easily reverse the pattern of trade, so that a country formerly exporting one commodity could end up importing that same commodity after a tax change. He makes the point that taxes may be just as much a determinant of trade as a country's endowments of labour, capital and natural resources. (The contribution of these factors to Canadian trade is discussed in an earlier Council study by H. H. Postner, "Factor Content of Canadian International Trade"). The study proceeds to investigate the implications for our trade of various kinds of taxes such as the corporate income tax, including taxation of foreign sources of income, resource taxes, indirect, personal and property taxes.

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*J. R. Melvin, The Tax Structure and Canadian Trade, published by the Economic Council of Canada, Information Canada, Ottawa, catalogue No. EC22-37/1975. Price: Canada, $4.00; other countries, $4.80.

Dr. Melvin reaches the same conclusion as the Carter Commission (1966), namely that the corporate income tax should be abolished but his reasons, as set out on page 63, are different. He sees the present uncertainty surrounding taxation of foreign earnings as an impediment to Canadian foreign investment.

The effects on the Canadian economy of the removal of trade barriers and the potential role of tax changes under those circumstances are discussed at some length. The author recommends against using tax policies "to make short-run adjustment in a transition to free trade". In order to do this, the present system of taxes which is "relatively neutral in its effect on trade" would have to be replaced by one which was highly selective in its application. This, the author argues, would introduce distortions into the economy. A much more effective means of adapting the economy to a freer trade environment would be to adjust the time period over which tariffs would be removed. On the question of international tax harmonization, the study concludes that "If free trade is chosen with the hope of eliminating all of the effects of tariffs, some degree of international tax harmonization would be essential for an orderly international economy. ...harmonization would require only that countries not impose taxes on a specific commodity basis, for a general commodity tax cannot be used to duplicate a tariff system."

Canada

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FOR PUBLICATION
May 6, 1976

OTTAWA -- Between 1961 and 1970, employment in Canada rose 30 per cent, but this growth was not uniform throughout the regions. Although the number of jobs increased absolutely in each region, the rate of employment growth was higher than the national average in some regions while in others it was lower. For example, employment increased 47.5 per cent in British Columbia, but only 17.7 and 18.4 per cent, respectively, in the Atlantic and Prairie regions. In other words, some regions made relative gains in jobs, while others experienced relative losses. These relative losses and gains are the subject of a study* by Professor Fernand Martin of the University of Montreal, in collaboration with Richard Beaudry, published today by the Economic Council of Canada.

The object of the study is to establish to what extent the relative variations in employment growth are tied to differences in the industrial structure of each region compared with that of the

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*Fernand Martin with the collaboration of Richard Beaudry, Regional Aspects of the Evolution of Canadian Employment, a study published by the Economic Council of Canada, Information Canada, Ottawa, catalogue No. EC22-39/1975. Price: Canada, $3.00; other countries, $3.60.

Canadian economy as a whole. The author drew up a list of industries, at the national level, that experienced slow or rapid growth in the number of jobs. This same classification was carried out for each of the five Canadian economic regions. By comparing these with the "national norm," the author attempted to determine to what extent the relative losses or gains of jobs in a given region were tied to the presence in that region of slow- or rapid-growth industries. But as these industries do not exist in isolation from the general economic situation (infrastructure, market profile, energy sources, supply of raw materials, presence of financial services, ...) prevailing in a region, it was necessary to distinguish the relative variations in employment associated with two components: the "structural" component, and the "regional" component.

Using this method and the industrial structure of each region in 1961, Professor Martin determined the relative variations in employment attributable to structural and regional factors for each region and industry.

While the industrial structure of the Atlantic region (pp. 32-39) was far from ideal, the weak performance of this region can be more readily explained by the fact that its growth was largely in the slow-growth industries, and that all industries in the region experienced a slower growth rate than that for Canada. The lack of certain key tertiary industries, such as business services, is one of the region's shortcomings, and this can be partly explained by the characteristics of its urban structure. The absence of this type of industry is a major obstacle to achieving prosperity in some types of business.

The Prairie region (pp. 45-48), whose performance was (in terms of employment) almost as poor as that of the Atlantic region, emerges as one of the most deprived regions in terms of job creation opportunities. Its industrial structure appears to be the major cause. Regional conditions did not play a very large role in overall performance, except in the tertiary sector, where the growth rates of the different industries were lower than elsewhere. On the whole, the region's performance was largely determined by its historical specialization in agriculture and under-specialization in secondary industries.

British Columbia (pp. 48-50) is, along with the Prairies, the most specialized region in Canada, yet its growth was not influenced by this historical heritage. The regional component was based primarily on the fact that almost all the industries in British Columbia, whether slow- or rapid-growth, developed more rapidly (in terms of employment) than the Canadian average. In other words, the rapid growth of the region is much more the result of the vitality of each individual industry than of the quality of the industrial structure.

The strength of Ontario (pp. 42-45) lies in its secondary and tertiary sectors, unlike Quebec, which lacks the latter, or the Atlantic region, whose economy is based almost entirely on the primary sector. Ontario's initial specialization explains to a great extent its strong performance. The region has a high concentration of rapid-growth industries and fewer experiencing slow growth.

Quebec (pp. 39-42) is the least specialized region in Canada. The predominance of slow-growth industries appears to be one of the major causes of the province's relative loss of jobs. There was an

initial over-specialization in slow-growth industries and under-specialization in rapid-growth industries. The improvement in the industrial structure that did occur in the 1961-70 period was not only the result of slow local growth in the former but also of progress in the latter. Some tertiary industries registered a more rapid growth rate than the national average. In a general way, the author concludes that, even though there was a relative loss of jobs, the standard of living in Quebec does not seem to have suffered.

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Economic Council of Canada

Conseil économique du Canada

news release/communiqué

PR 76/15

FOR RELEASE
Tuesday, July 6, 1976

CANADIAN POLICY TOWARD TRADE IN CRUDE OIL AND NATURAL GAS

OTTAWA -- Unresolved technical problems could curtail Canada's medium-term supply of crude oil and natural gas, a study* published by the Economic Council of Canada suggests.

Canada's first priority for oil and gas is to keep enough of it on hand, say T. L. POWRIE and W. D. GAINER, in a book released Tuesday July 6, titled Canadian Policy Toward Trade in Crude Oil and Natural Gas.

Possible damage to the environment and the huge sums of money required to find new reserves are major blocks to maintaining adequate supply, according to the authors. They are convinced that nuclear energy supplies will become abundant within a decade or two. They are, however, less optimistic that Canada will have an adequate supply of oil and gas to meet demand until then.

Canadian fuels comprise only a small segment of the world energy market. Nevertheless, high world prices and increasing United States

*T. L. POWRIE and W. D. GAINER, Canadian Policy Toward Trade in Crude Oil and Natural Gas, study published by the Economic Council of Canada, Information Canada, Ottawa, Cat. No. EC22-35/1975; price: Canada, $2.75, other countries, $3.30.

demand for Canadian oil exports present a continuing drain on Canada's reserve-to-production ratio. The authors hold little hope for a drop in world petroleum prices before 1985, despite an intensive drive by the United States to become self-sufficient in fuel sources and a concomitant drop in demand for foreign oil. They further predict Canadian exports to the United States will be limited only by Canadian supply, and not by U.S. quotas on imports.

Powrie and Gainer call for Canadian policy measures to ensure that available oil reserves until 1980 will remain at least ten times greater than annual production.

Known oil reserves in 1972 amounted to 10,163 million barrels. The authors start with an hypothesis that domestic consumption could accelerate by 5.5 per cent a year in the future, while export growth will fall to 10 per cent a year from 18.5 per cent annually in the years 1966 to 1972, and imports will hold steady at a 5 per cent annual growth. That will leave a shortfall of 9,204 million barrels to be discovered between the years 1972 and 1980, or 1,023 million barrels a year.

New discoveries likely to be found in the Prairies or extracted from the Athabaska Tar Sands will reach only 590 million barrels a year at best. Consequently, Canada cannot sustain its present rates of imports and exports of crude oil unless there are major new finds of conventional oil, most probably in the Arctic, or unless there is a massive increase in tar sands capacity.

If Canada is to maintain a reserve-to-production ratio of 10:1 by 1980, including a new discovery rate of 590 million barrels a year and export growth at 10 per cent a year, then imports would have to be

increased to 12 per cent growth a year -- nearly twice the anticipated rate of growth. This turn of events could endanger the security of supply.

If the growth rate of imports is to be held constant, then the annual growth rate for exports would have to be curtailed from 18 per cent annually during the years 1966 to 1973 to no more than 4 per cent a year to 1980. Achieving this rate depends upon the construction of a new tar sands extraction plant every two years once the Syncrude plant reaches full production capacity.

Working within these limits, the authors examine five possible options for Canadian trade policy and the impact each would have on security of supply, real national income, balance of payments, distribution of income, and other variables. They show, for example, that by considering only real national income, freer trade would be the best policy. Imported oil could supply not only the Atlantic provinces and Quebec, but also Ontario.

If, on the other hand, only security of supply is considered, there could not be any growth in exports and imports. There would then be a surplus of only $554 million in 1980, compared with a possible $3,735 million available if the freer trade option is used.

If priority goes to protecting Canadian reserves, then a conservation policy option that limits exports and increases imports would have to be adopted in order to keep pace with an average annual discovery rate of only 590 million barrels.

For natural gas, the authors examine the same range of options as they have given for oil, using 1973 as their reference year. They

note that only exports of natural gas, and not imports, are likely to be an issue in the medium-term future.

The status quo option would maintain the 1973 relationships between production, demand, exports and imports until 1980. The conservation option would maintain exports at their 1973 absolute levels until 1980. Freer trade would produce a 10 per cent annual growth in exports and imports, compared with just over 8 per cent for oil. Under the security option, exports and imports would both be held at their 1973 levels until 1980. The rapid development options would make provision for more expansive market outlets by barring growth in imports and by accelerating growth in exports to 10 or 12 per cent a year to 1980.

Because the present Canadian reserves-to-production ratio for natural gas and its future outlook is larger than that for oil, it is unnecessary to restrict exports of gas. These exports could be permitted to grow by as much as 4 per cent a year to 1980, not including the Mackenzie Delta reserve possibilities, or by around 8 per cent a year, if these are proved.

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For more information

Information Service (613) 993-3591.

Economic Council of Canada
Conseil économique du Canada

news release/communiqué

PR 76/16

FOR RELEASE
WEDNESDAY, JULY 14, 1976

UNEMPLOYMENT AND UNEMPLOYMENT INSURANCE

OTTAWA -- "...the present Canadian unemployment insurance program, however humane and "progressive", has the potential to create important work disincentives and that it has, in fact, contributed to the unexpectedly high unemployment rates experienced since 1971", according to a study released by the Economic Council of Canada today. Unemployment in Canada: The Impact of Unemployment Insurance*, by C. Green and J.-M. Cousineau, is one of a series of background papers to the Council's major enquiry into the Canadian labour market, "People and Jobs", issued March 31.

The authors believe that the impact of unemployment insurance on the unemployment rate is not less than 1 percentage point and they would not be surprised if it amounted to as much as 1.5 percentage points. The study focuses on whether the major changes in benefit levels, eligibility conditions, and coverage encompassed in the Unemployment Insurance Act of 1971 help explain recent (1972-73) labour market behaviour. The

*C. Green and J.-M. Cousineau, Unemployment in Canada: The Impact of Unemployment Insurance, Economic Council of Canada. (Printing and Publishing, Supply and Services Canada, Ottawa, Catalogue No. EC22-38/1975. Price: Canada, $5.00; other countries, $6.00, 148 pages.)

authors concluded that one-half to three-quarters of the UI induced unemployment is attributable to the major revisions in the program enacted in 1971. This induced unemployment appears to have been more pronounced in the Atlantic and the Prairie Provinces. In 1973, for instance, 25% of the unemployment in the Atlantic Provinces and 10% in the Prairie Provinces could be accounted for by the more generous unemployment insurance provisions compared to a national average of 6%. Women were particularly affected. Where women would normally represent roughly one-third of all unemployed persons, during the first half of 1973 they accounted for 56% of the estimated unemployment induced by the 1971 revisions.

The study notes that the nature of unemployment has shifted significantly in the last decade. The majority of the unemployed are not heads of families but members of multi-earner families. The average worker now has more choice about accepting or rejecting a job. The more generous provisions of the unemployment insurance substantially reduce the net income associated with an insured unemployed person accepting a job. This is in addition to the more adequate level of benefits provided. The unemployed person can therefore exercise more choice in the face of new job opportunities and this may in fact lengthen the duration of unemployment. The authors point out that "...if increased wealth per family unit, multi-earner families, and UI now allow the typical labour force participant to be choosier before accepting employment, then participants are "better off" even if their lengthened duration of unemployment tends to increase the unemployment rate. While society may lose some output which would have been produced if unemployment was less,

this "welfare loss" may be offset by increased worker satisfaction in job choice and perhaps even in higher productivity."

Although the estimated impact of unemployment insurance on Canada's unemployment rate is substantial, unemployment insurance is by no means the whole story behind the high unemployment rates experienced since 1970.

While emphasizing that their findings are chiefly relevant to the period studied (1972-73), the authors think that when the Canadian economy recovers from the current recession, the important role unemployment insurance has come to play in the lives of many workers may contribute to making the reduction in the unemployment rate to acceptably low levels very difficult indeed.

Christopher Green has been a Professor of Economics since 1969 at McGill University and Jean-Michel Cousineau has been a member of the professional staff of the Economic Council of Canada since 1972.

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news release/communiqué

PR 76/17

FOR RELEASE
WEDNESDAY, JULY 28, 1976

OTTAWA -- The Economic Council of Canada today released a joint study, carried out with the Council of Maritime Premiers, devoted to the effect of income security programs on labour market performance in New Brunswick, Nova Scotia and Prince Edward Island and, more generally, on the whole of the Maritime economy*.

The three authors, Neil Swan, director of the regional development study group of the Economic Council, P. MacRae, senior civil servant with the government of New Brunswick, and C. Steinberg, professor of economics at Dalhousie University, note that the expenditures for the various incomes security programs have risen with extraordinary rapidity at all levels of government in the last few years. While expenditures on social assistance changed little in Prince Edward Island between 1966-67 and 1972-73, they doubled in Nova Scotia and quintupled in New Brunswick. Payments of unemployment insurance benefits increased four- or five-fold in all three provinces during the same period. Payments to the retired, in the form of old age pensions, guaranteed income supplements, and more recently, Canada Pension Plan benefits, were two-and-a-half times as high in 1972-73 as in 1966-67.

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*N. SWAN, P. MacRAE and C. STEINBERG, Income Maintenance Programs: Their Effect on Labour Supply and Aggregate Demand in the Maritimes, a Joint Report of the Council of Maritime Premiers and the Economic Council of Canada. (Printing and Publishing, Supply and Services Canada, Ottawa, Catalogue No. EC22-41/1976. Price: Canada, $3.00; other countries, $3.60, 82 pages.)

This recent surge in income maintenance spending raises a number of questions, including whether it has had a substantial influence in the Maritimes on the motivation to work.

It appears that in two provinces, New Brunswick and Prince Edward Island, the participation rate of the working-age population because of the more generous unemployment provisions enacted in 1971 grew by at least 4 per cent, compared with about 2 per cent for the whole of Canada. The third province, Nova Scotia, showed no change in its participation rate. In other words, changes in the unemployment insurance system tended to increase the number of people working or seeking work relative to the entire adult population. It is quite possible, in fact, that some persons not performing any paid work were attracted into the labour force by the increased unemployment benefits. Since there are obvious advantages to alternating short periods of paid work with spells of "leisure" time on unemployment insurance rather than experiencing full-time but unpaid "leisure" or periodic spells of paid work without the payment of benefit during the "leisure" spells, more generous unemployment benefits can increase both participation and unemployment rates.[1]

In discussing welfare, the authors show that the growth of provincial and municipal expenditures reflects a sharp increase in the number of recipients. This number more than doubled in New Brunswick, from slightly more than 9,000 in 1963 to over 20,000 in 1973. The growth in Nova Scotia, while slightly less, was still 85 per cent over the same period, and 20,000 persons were on welfare in 1973.

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1. A recent study published under the auspices of the Council established that unemployment attributable to major changes in the unemployment insurance system in 1971 was more pronounced in the Atlantic Region than in other regions and for Canada as a whole. (See C. Green and J.-M. Cousineau, Unemployment in Canada: The Impact of Unemployment Insurance, Supply and Services Canada, Ottawa, 1976.)

One may wonder whether, among those on welfare, a large number might indeed be capable of work. From an analysis of a sample of welfare recipient files covering 20 years, the authors judged that, excluding single mothers with children, a maximum of 3,200 people, or one-sixth of welfare recipients in Nova Scotia, and a maximum of 7,900 recipients in New Brunswick, or 37 per cent of the total, were in fact capable of work. In both samples, most welfare recipients were classified as unemployed, not as sick or disabled. However, even if a sizeable fraction of welfare recipients could work, it would not necessarily mean that they deliberately chose welfare instead of work. The problem is to determine whether there were jobs available. In March 1974, for example, for every nine job openings in Nova Scotia there were 31 people available for work, one of whom was on municipal welfare. On the basis of this and much other evidence, the authors conclude: "The number of people who have chosen welfare in preference to work is very small. Our evidence indicates that they may comprise perhaps 5 per cent of the New Brunswick provincial case load, less than this percentage of the Nova Scotia provincial case load, and none of the Nova Scotia municipal case load." (It should be noted that the Economid Council did not pursue the question of the impact of social assistance on unemployment in its recent study of the Canadian Labour Market, People and Jobs.)

Income maintenance programs have other effects. They allow those who receive income from them to buy goods and services that they could not otherwise have afforded. Producing those goods and services requires that workers be employed who otherwise would not be. It appears then that these programs create new jobs. In fact, the authors established that as a result of the aggregate demand effect of all income maintenance programs, the unemployment rate was reduced by about three-quarters of a

percentage point in Nova Scotia, by almost a full percentage point in New Brunswick, and probably by about the same amount in Prince Edward Island.

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N.B. This study reflects the views of the authors and not necessarily those of the Economic Council of Canada or the Council of Maritime Premiers.

For more information

Information Service (613) 993-3591.

Economic Council of Canada

Conseil économique du Canada

news release/communiqué

PR 76/19

FOR RELEASE
TUESDAY, AUGUST 31, 1976

OTTAWA -- If the Unemployment Insurance Act had not been changed in 1971, and in the absence of all other policies aimed at stimulating the economy through tax cuts or an increase in government expenditures, the performance of the Canadian economy in 1972 and 1973 would have been seriously affected. Employment would have been 30,000 less than what it was in 1972 and 112,000 less in 1973. The unemployment rate would have been almost one percentage point higher in 1973, and the real growth rate of the economy would have been reduced by 0.7 and 0.5 percentage points respectively in 1972 and 1973.

These are the conclusions reached by the four authors of a study released today under the auspices of the Economic Council of Canada, which is devoted to the economic impact of government programs oriented toward the labour market*.

In the late 1960s and early 1970s, the federal government, concerned over rising unemployment, introduced a number of expansionist

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*P. A. COOK, C. D. HODGINS, G. V. JUMP and C. J. SZABO, <u>Economic Impact of Selected Government Programs Directed Toward the Labour Market</u>, Economic Council of Canada. (Printing and Publishing, Supply and Services Canada, Ottawa, Cat. No. EC22-43/1976, price: Canada, $3.00; other countries, $3.60, 119 pages.)

fiscal measures. Of these, five programs were directed toward the labour market. They included the Local Initiatives Program (LIP), Opportunities for Youth (OFY) and the Canada Manpower On-the-Job Training Program. Changes were made to the scale of operations and direction of the existing Canada Manpower Training Program (CMTP), and unemployment insurance underwent considerable restructuring.

The authors measure the collective and individual contributions (excluding all other aspects) of the five programs to stabilizing the economy, and question whether better results might not have been obtained through traditional tools of fiscal policy, particularly personal income tax cuts.

It appears that the five programs together were more effective than tax cuts would have been, but only because they had a more immediate effect on the economy.

While the new Unemployment Insurance Act was clearly expansionist, the authors show that the results would have been essentially the same if personal income tax had been reduced by an amount equal to the benefits paid by the government, and if the additional increase in available personal income had been allowed to stimulate the economy.

The Local Initiatives and Opportunities for Youth Programs both resulted, at least in part, from the federal government's desire to solve the problem of rising unemployment in the early 1970s. The Canada Manpower Training Programs were created to avoid long-term unemployment caused by the difference between the qualifications of workers and requirements of employers.

The Local Initiatives Program, like the Opportunities for Youth Program, created new jobs, but in both cases the number of jobs created only

compensated for the increase in the labour force that these programs stimulated. Consequently, they contributed little more to reducing unemployment than would the more traditional tools of expenditure increases and tax cuts.

The impact of the manpower training programs differs according to the degree to which they actually improved the qualifications of workers. This is not easily measurable. However, assuming they resulted in a positive qualitative improvement in individual skills and capabilities, then they did constitute an essential policy contributing to the growth of employment beyond what would have been possible had the same funds been used for more traditional government expenditures or for personal income tax cuts. On the other hand, if the training did not measurably add to the potential productivity of trainees, then the traditional fiscal measures would have been more effective in increasing employment than CMTP.

The authors limited themselves to the macroeconomic impact of these programs. Their study shows that injecting money into the economy -- through an increase in government expenditures or through tax cuts -- always acts as a stimulus and helps reduce unemployment, no matter what form the programs may take. This overall impact, however, is accompanied by other effects that result from the nature of the programs and especially influence worker behaviour. Two studies recently released under the auspices of the Economic Council were devoted to measuring the extent to which changes in unemployment insurance constituted an incentive or disincentive to work. The first, by C. Green and J. M. Cousineau, viewed the problem from a national perspective[1],

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1. C. Green and J.M. Cousineau, Unemployment in Canada: The Impact of Unemployment Insurance, Economic Council of Canada, Ottawa.

vhereas the second dealt with the Maritime Provinces only[2]. Green and Cousineau's conclusion that greater generosity in unemployment insurance after the 1971 revisions helped increase unemployment by its effects on vorker motivation does not contradict the conclusion reached in the present study, because the respective authors did not approach the problem from the same levels. Such divergent conclusions resulting from different approaches of study illustrate once more the complexity of labour market machinery, as vas stressed in the Council report People and Jobs, published last March.

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e authors are:

ter A. Cook, Canadian Economic Services Ltd., Ottawa
ril D. Hodgins, Canadian Economic Services Ltd., Ottawa
egory V. Jump, Institute for Quantitative Analysis, University of Toronto
arles J. Szabo, Department of Criminology, University of Montreal

N.B. This study reflects the views of the authors and not necessarily those of the Economic Council of Canada.

r more information, contact

Information Service (613) 993-3591.

. N. Swan, P. MacRae and C. Steinberg, Income Maintenance Programs: Their Effect on Labour Supply and Aggregate Demand in the Maritimes. A Joint Report of the Council of Maritime Premiers and the Economic Council of Canada, Ottawa.

Economic Council of Canada

Conseil économique du Canada

news release/communiqué

PR 76/20

FOR RELEASE
SEPTEMBER 9, 1976

OTTAWA -- Judging from the first seven years of its existence (1965-71), "the Canada-United States Automotive Agreement was one of the most successful economic decisions undertaken by the Canadian government in the postwar era." This is the conclusion reached by David E. Wilton, Professor at the Department of Economics of the University of Guelph, Ontario, in a study released today under the auspices of the Economic Council of Canada.*

If the government had not negotiated the Automotive Pact, and in the absence of all other policies, then the 1971 level of real output in the Canadian economy would have been over $3 billion lower, the study reveals. This would have also meant almost 300,000 fewer jobs.

The author shows that the Pact caused a 100-per-cent increase in the level of real output in the motor vehicle manufacturing industry. The automotive parts and accessories industry alone added an additional 26,000 employees and tripled its level of real output.

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*DAVID A. WILTON, An Econometric Analysis of the Canada-United States Automotive Agreement: The First Seven Years, Economic Council of Canada. (Printing and Publishing, Supply and Services, Canada, Ottawa, Catalogue No. EC22-40/1976, price: Canada $3.00; Other Countries $3.60, 115 pages.)

The signing of the Automotive Agreement had the following effects on the Canadian economy for the year 1971:

- real Gross National Expenditure (GNE) was over 5 per cent higher than it would have been without the Automotive Agreement;
- total employment within the Canadian economy increased by almost 4 per cent;
- the general rate of inflation did not appreciably change although retail automobile prices declined by 12 per cent;
- while large increases in corporate profits (8.8 per cent) and in total wages, salaries and supplements (6.5 per cent) occurred, real wages per employee only moderately increased (2.6 per cent);
- real gross capital stock in the Canadian economy marginally increased (1.3 per cent); and
- there was a strong favourable effect on the current account of the balance of payments.

The author bases his findings on the assumption that the government had no alternate policy available to it. He also warns of inherent errors in econometric research of this type. The study compares, through simulation, the impact of the Automotive Agreement with an alternative industrial policy designed to stimulate investment in the manufacturing sector to the same level of output and employment obtained by the Agreement. The most substantive differences in these two policy simulations rests in the impact on foreign trade flows and the balance of payments. The 1971 simulated current balance deficit under the investment incentives program widens to an amount in excess of $2 billion, in direct contrast to the small simulated surplus achieved under the Automotive Agreement simulation for the same year. The author feels that the tremendous surge in automotive exports generated by the Agreement more than offsets the increased flow of imports that typically accompany a higher rate of economic activity.

The situation could change, however. "The fact that the automotive trade surpluses of 1970-71 have dissipated into substantial deficits in 1974-75 may signal a reversal of some of the positive effects of the earlier years," he says.

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N.B. This study reflects the views of the author and not necessarily those of the Economic Council of Canada.

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Government Publications

news release/communiqué

PR 76/21

NOT TO BE PUBLISHED BEFORE
2:00 P.M. (EDT)
THURSDAY, SEPTEMBER 16, 1976

OTTAWA -- *EFFICIENCY AND REGULATION -- A Study of Deposit Institutions** is the title of a report by the Economic Council of Canada made public today by the Chairman, André Raynauld. Although published in conjunction with the decennial revision of the Bank Act, to which repeated references are made, the Council's 21 recommendations contained in this report were not drawn up exclusively for this purpose. The Economic Council studied the Canadian financial system with the objective of improving its efficiency. The report is made up of 153 pages divided into 12 chapters and three appendixes, complemented by 37 tables and seven charts.

The report can be divided into three major parts. The Council first examines the environment in which deposit institutions operate and analyses their performance. The report assesses the nature and extent of the obstacles that hinder the efficiency of financial markets. Based on the conclusion of this analysis, it then states *the central theme of the report: in order to increase the efficiency of deposit institutions, the regulations governing them must be more flexible, and the scope for*

**EFFICIENCY AND REGULATION -- A Study of Deposit Institutions*, Economic Council of Canada. (Printing and Publishing, Supply and Services Canada, Ottawa, Catalogue No. EC22-47/1976; price: Canada, $5.00; other countries, $6.00, 153 pages.)

-mpetition must be widened.* The practical implications of this principle re next developed, both for Canadian institutions and for Canadian sub-idiaries of foreign-owned banks. The evolution of the payment system is xamined, including payments by cheques, bank credit cards, and future lectronic payment systems.

The recommendations are listed in full on page 132 of the report. wo press releases with page numbers in parentheses for reference have been rawn up for your use to provide you with a preliminary, brief contact with he general content of the report. A more detailed abstract is also ttached.

The report is available at the six Canadian government bookstores* t $5.00 per copy and can also be ordered by mail: Printing and Publishing, upply and Services Canada, Ottawa K1A 0S9. *For any additional information,* ontact Patrick Robert, Economic Council of Canada, P.O. Box 527, Ottawa 1P 5V6, tel. (613) 993-3591.

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*Due to the announcement some time ago of the impending closing of the Canadian government bookstores, a large part of the public considers this as already done. In fact, the report will still be available for a few weeks *in six Canadian government bookstores*: 1683 Barrington Street, *Halifax*; 640 St. Catherine Street West, *Montreal*; 171 Slater Street, *Ottawa*; 221 Yonge Street, *Toronto*; 393 Portage Avenue, *Winnipeg*; 800 Granville Street, *Vancouver*. We seek your co-operation in passing along this information and thank you in advance.

Economic Council of Canada

Conseil économique du Canada

news release/communiqué

R 76/22

NOT TO BE PUBLISHED BEFORE
2:00 P.M. (EDT)
THURSDAY, SEPTEMBER 16, 1976

ELIMINATING THE OBSTACLES

TO GREATER EFFICIENCY

OTTAWA -- Since the last revision of the Bank Act in 1967 and especially since the publication of the Porter Commission Report in 1964, financial markets in Canada have changed considerably.

New methods of payment have evolved or have been created. Cheques are one example: in 1974, they represented three-quarters of the total value of transactions (99-101)*. Transaction cards are another: the number of active cards has grown from fewer than 100,000 in 1968 to more than 2,000,000 at present (107-109, Table 10-1). New methods of financing, such as leasing and factoring, have been made available to firms. They in turn have shifted from equity financing to borrowing and from long-term to shorter-term debt (29-31).

EFFICIENCY AND REGULATION -- A Study of Deposit Institutions, Economic Council of Canada. (Printing and Publishing, Supply and Services Canada, Ottawa, Catalogue No. EC22-47/1976; price: Canada, $5.00; other countries, $6.00, 153 pages.)

(Numbers in parentheses refer to page numbers of the report.)

The field of operations of deposit institutions also has grown considerably. While the international activities of Canadian banks up to the mid-1960s was basically limited to the New York and London markets, today over 30 per cent of their business is transacted in foreign currency, and they have more than 500 branches, agencies and subsidiaries abroad (14-16). In turn, the role of foreign banks has grown and an estimated 50 to 100 foreign banks are represented in Canadian financial markets in various capacities (22 and 90-92).

In addition, certain institutions such as credit unions and caisses populaires have extended the range of their operations by offering new financial services to their customers (20). Moreover, use of the computer has led to the prospect of a technological revolution of the payment system, which will considerably modify its operation (115-118).

All these reasons have led the Economic Council, in a report released today, titled *Efficiency and Regulation*, to take a new look at the financial system and its operations, and to examine the ability of deposit institutions to efficiently meet the financial needs of the Canadian economy.

"Efficiency" is reached when the cost of money borrowed by the customers of deposit institutions is as low as possible and the return on their deposits is as high as possible. Such does not yet appear to be the case in Canada. From an analysis of the performance and efficiency of the major Canadian banks, the Council judges that *"there is a case for increasing the incentives to greater efficiency and for reducing operating costs and prices in Canadian banking."* (47).

As a general rule, the conditions of access to an economic sector strongly influence the level of costs and prices. When it is fairly easy to enter a field, new firms compete with existing ones and tend to bring

costs and prices down. If, on the other hand, there are obstacles to the entry of new firms, the existing ones can, to a certain extent, maintain higher prices than they would if they were faced with new competition, and so earn excess profits.

Thus, from 1968 to 1973, banks earned higher profit rates than most other sectors of the economy. Furthermore, no major institution directly entered the banking sector during this period. *"This result"* the Council concludes, *"indicates the presence of barriers to entry that serve to protect existing firms from the full force of competition."*(41).

In a separate functional analysis of the borrowing and lending operations of deposit institutions, the Council notes that all institutions compete in the collection of funds but do not have equal access to lending activities (25).

In the case of consumer loans, the fact that banks control the largest share of the market, with 54 per cent of all loans in 1974, is not unrelated to present legislation that restricts the activities of trust and mortgage loan companies in this field (26). If the latter had freer access to the consumer loans market, the Council feels that they would not only be able to increase their share of the market but also to offer new and better services to consumers.

In the case of mortgage loans, the situation is reversed. It is the banks that are restricted in this field, to the advantage of the trust and mortgage loan institutions (27).

As for business loans, the banks are the only deposit institutions that play an important role because neither trust and mortgage loan companies nor credit unions and caisses populaires are authorized to make loans to

firms within the normal course of their business (28). Again the Council feels there is room for other deposit institutions and that *"increased competition in this market would provide significant benefit to commercial borrowers."*(31). However, in order to minimize potential conflicts of interest in the case of companies engaging in fiduciary activities, it adds that commercial lending powers should not be granted to these institutions without provision for separating fiduciary activities from all other banking activities (77).

Banks are not permitted to engage in many modern techniques of financing, such as leasing, which allows firms to lease (83) needed machinery. Since these new techniques are especially adapted to the needs of small and new firms, hindering bank activity in this market limits the scope of operations of these firms.

Another prohibited activity is factoring, which ranges from simple discounting of accounts receivable to actual cash management (84). The Council considers that if Canadian deposit institutions continue to be prevented from further entering this market, the field will be left completely open to foreign firms, which have been the only ones to date to show an active interest in it.

This unequal treatment of different deposit institutions affects not only their lending activities but also their participation in payment systems. Apart from cash transactions, there are two major payment systems: cheques and transaction cards -- the various types of consumer credit cards available.

Only banks participate in the final stage of transaction settlements by cheque because only they have direct access to the clearing system (100). The Council considers this a possible obstacle to competition in

financial markets. Some institutions cannot participate in interbank clearing, although they may account for the often larger volume of transactions in regional clearing houses than several participating banks: the Council finds this *"an anomalous situation"* (103).

For many consumers, transaction cards are a convenient method of making purchases (107). At present, however, banks are the only institutions issuing general purpose transaction cards.

According to the Council, it is not desirable to prolong this situation indefinitely. This exclusiveness is one of the most glaring obstacles to competition since other deposit institutions, so long as they cannot offer an equivalent card to their customers, will be hindered in attracting deposits and therefore in competing with banks.

Furthermore, this situation could create even more serious problems of competition in future if, as expected, the general purpose card becomes the cornerstone of an electronic payment system (116). As more and more payments are computerized, competition between deposit institutions will be increasingly endangered, to the detriment of the public, unless all these institutions are able to offer a transaction card to their customers.

Therefore, after examining the different activities of deposit institutions, the Council concludes that there are a certain number of obstacles that impede the efficiency of financial markets by limiting competition. *"This situation is largely due to an inappropriate structure of regulations that restrict different firms to particular areas."* (125).

"At present," the report concludes, *"Canadian deposit institutions are governed by a legislative framework that consists of separate sets of rules defining the range of permissible activities and requirements that apply to each type of institution.... Consequently, institutions involved in substantially different activities are governed by the same rules and regulations, purely because of incorporation under the same legislation. Similarly, other institutions carrying on substantially the same business are governed by entirely different rules, or no rules at all, depending on the basis of their original incorporation."*(125).

The Council feels that any obstacle limiting the ability of deposit institutions to expand in financial markets should be the object of close critical scrutiny. It recommends that restrictions imposed on the activities of deposit institutions should be lifted when they cannot be justified by economic considerations.

<u>As the basic theme of its report, the Council concludes that institutions with similar activities should be subject to the same restrictions and enjoy the same opportunities</u>. To achieve this end, the Council suggests that the present "institutional" approach to regulation should be replaced by regulations based on the type of activities undertaken by deposit institutions. These regulations would allow all institutions to engage in the same activities provided that they meet the requirements established for those activities (60-61).

In the opinion of the Council, *"this functional approach to regulation would best fulfil the needs of the Canadian economy for*

intermediary services.... The competition, flexibility, and innovation necessary for a smooth financial system can be assured only under such an approach." (2).

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For further information:

Patrick Robert
Economic Council of Canada
P.O. Box 527, Ottawa (Ontario) K1P 5V6
Telephone: (613) 993-3591

Economic Council of Canada

Conseil économique du Canada

news release/communiqué

PR 76/23

NOT TO BE PUBLISHED BEFORE
2:00 P.M. (EDT)
THURSDAY, SEPTEMBER 16, 1976

THE RIGHT OF ALL DEPOSIT INSTITUTIONS TO CARRY ON THE SAME ACTIVITIES UNDER THE SAME CONSTRAINTS

OTTAWA -- According to the Economic Council of Canada, *"there is little doubt that present bank legislation gives rise to costs to Canadian customers."* (47). In a report released today, titled *Efficiency and Regulation**, the Council concludes that functional regulation would improve the efficiency of financial institutions by encouraging competition between firms established in this sector (60).

It goes without saying, however, that <u>competition between financial institutions is not an end in itself</u> and that efficiency is not a goal to be attained at all costs. The Council recognizes that efficiency *"plays only a part in the overall contribution of the financial system to the welfare of consumers and the economy at large."* (3) <u>The system must also take other goals into account</u>. It must protect depositors, promote sound financial management, avoid the concentration of power and ensure

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**EFFICIENCY AND REGULATION -- A Study of Deposit Institutions*, Economic Council of Canada. (Printing and Publishing, Supply and Services Canada, Ottawa, Catalogue No. EC22-47/1976; price: Canada, $5.00; other countries, $6.00, 153 pages.)

(Numbers in parentheses refer to page numbers of the report.)

that the financial markets are controlled by Canadians. The Council therefore studies these other goals before considering the implications of a functional approach to regulation on deposit institutions and the functioning of financial markets.

In theory, depositors are protected by deposit insurance (50). But the Council points out that not all depositors are equally protected in all deposit institutions; in fact, some are not protected at all by this insurance. This is the case for credit unions outside Quebec, which accumulate reserve funds for this purpose, but in insufficient amounts, compared with the amount of insured deposits (63).

The Council proposes various measures to improve this protection. Specifically, it recommends that deposit insurance be extended to all provincially incorporated institutions and that the borrowing power of the Canada Deposit Insurance Corporation be increased to correspond more closely to the amount of insured deposits (64-65). The Council concludes that borrowing limits imposed on certain companies to guarantee their solvency are no longer effective instruments for attaining the goal of depositor protection because they may have perverse effects. It therefore recommends that they be removed (73).

For purposes of monetary policy, banks are required to keep a certain proportion of their deposits as cash or deposits with the Bank of Canada. By varying these proportions -- known as reserve ratios -- the Bank of Canada exercises an indirect control on the supply and the means of payment and its close substitutes (66-67). In the opinion of the Council, the present high levels of reserve ratios imposed on banks are not necessary for controlling the money supply (51). Furthermore, if all deposit

institutions are to have access to the same activities, they must also be subject to the same responsibilities, especially with respect to reserves.

The Council, therefore, calls for all institutions to hold cash reserves on an equal basis, and for the reserve ratio not to exceed 4 per cent of demand deposits, notice deposits, and term deposits with an earliest maturity of less than 100 days (69).

In addition, adopting a functional approach to regulation would lead to legislation requiring institutions that carry on the same activities to be subject to the same treatment. Application of this proposal raises a jurisdictional problem since, at present, deposit institutions are governed either by federal or provincial legislation (55-58). For such legislation to be effective, a choice might have to be made between federal government dominance and a high degree of co-operation between Ottawa and the provinces. In fact, the Council believes that the present sharing of responsibilities between the two levels of government is not an obstacle to the application of this approach, provided that both levels of government adopt compatible rules (57-58). *"It is only necessary to achieve regulatory consistency for each function, which, with sufficient federal-provincial co-operation could be accomplished without federal dominance."* (76).

Adopting a functional framework with the aim of standardizing conditions under which deposit institutions would exercise their activities raises the question of Canadian subsidiaries of foreign banks. While the present act contains no provision authorizing foreign banks to establish agencies or branches in Canada, it does not prevent them from establishing subsidiaries, provided they are not called banks (89). *"Indeed, there are disadvantages, as well as advantages, to foreign bank entry."* (92).

In approaching this problem, the Council has sought to give equal weight to the principles of efficiency and adequate Canadian control of banking (90). It concludes that the advantages resulting from foreign bank entry into Canadian financial markets justify including them in the Canadian regulatory structure.

There is, at present, a large disparity in treatment given Canadian and foreign banks. The Council proposes to rectify the situation so that both may exercise the same activities (91-95). It calls for a staged approach to the entry of foreign banks: in the initial stage, lasting perhaps ten years, their power to branch and expand should be restricted (95). Following this transitional period, however, they could obtain full branching powers subject to the sale of a substantial number of their shares to Canadians and an overall size limitation. Finally, this last restriction would be removed if the parent bank reduced its shareholdings in order to conform to the fundamental principle of Canadian legislation -- that ownership of a bank must be widely dispersed.

The Council believes that its proposed changes to regulation of foreign bank entry are necessary for the development of a flexible and competitive financial sector. This proposal is also in line with the effects a functional framework for regulation would have on truly Canadian institutions by giving them access to new financial activities.

All Canadian institutions already accepting deposits should be subject to the same regulations, according to the Council. This would apply to trust and mortgage loan companies, credit unions, caisses populaires, finance companies, or other individuals and institutions. Then they could all engage in the same activities as banks, especially loans to businesses. In the same way, the mortgage ceiling imposed on banks would be removed,

irect access to the cheque clearing system under the same conditions as or banks (99-102). *"This proposal follows our functional approach to egulation, in that not only would institutions exercising the same ctivities be subject to the same constraints but also that the same pportunities would be available to them."* (104). In the same way, after tudying several plans for allowing near-banks to issue transaction cards, he Council proposes that the present issuers of these cards be required to xtend access to their system and admit other deposit institutions (111-114).

The application of computers to bank operations will continue to ring about major changes; the matter has already been studied by the federal overnment (116-118). The Council advocates a more gradual and less centralized approach. *"The danger that obstacles to flexibility and competition in financial markets will be created with the advent of an electronic payment system should not be minimized, even if the precaution of planning interchange standards in advance has been taken."* (120). It feels that the government should refrain, for the present, from encouraging implementation of a single common-user network. In all cases, the government should ensure that small deposit institutions will have access to the electronic payment system, and should give priority to formulating guidelines that will establish the rights and responsibilities of all parties involved, and that the rights of individuals to privacy will be respected when this system is set up.

The Council believes that if its recommendations are implemented by the federal and provincial governments in a co-operative and co-ordinated manner, the financial system in Canada will be more competitive, innovative, and flexible.

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For further information:

Patrick Robert
Economic Council of Canada
P.O. Box 527, Ottawa (Ontario) K1P 5V6
Telephone: (613) 993-3591

Economic Council of Canada

Conseil économique du Canada

news release/communiqué

PR 76/25

FOR RELEASE
THURSDAY, SEPTEMBER 23, 1976

OTTAWA -- Measured in terms of deviation from the long-term trend, fluctuations in residential construction between 1951 and 1971 were twice as pronounced as those in the Gross National Product. Residential construction has been the most unstable of all construction sectors.

Using the observation as a starting point, Joseph H. Chung attempts, in a study released today under the auspices of the Economic Council of Canada*, to determine the major causes and effects of these fluctuations in order to recommend measures capable of stabilizing housing construction.

The most widely accepted argument for the stabilization of residential construction is based on the belief that more stable growth makes it possible to improve productivity, allows medium-term production planning based on demand forecasts, promotes better manpower training, helps harmonize management-employee relations, and facilitates the industrialization of housing construction.

The cyclical instability of housing starts during the 1950s can be attributed mainly to the construction of single-family houses, while

*JOSEPH H. CHUNG, Cyclical Instability in Residential Construction in Canada, Economic Council of Canada. (Printing and Publishing, Supply and Services Canada, Ottawa, Cat. No. EC22-30/1975; price: Canada, $4.25; other countries, $5.10, 139 pages.)

during the 1960s, construction of multi-family housing was the major source of instability in the total number of housing starts.

While it is evident, according to the author, that monetary policy is a determinant of instability in residential construction, the magnitude of its impact should not be exaggerated. "This finding increases the possibility that a good part of cyclical instability in residential construction is due to other unknown factors."

In analysing these different factors, the author concludes that the stabilization of residential construction necessitates the stabilization of the flow of mortgage loans. But there are two main sources of mortgage funds: Central Mortgage and Housing Corporation (CMHC) and private institutions. The flow of private loans can be stabilized to some extent through the stabilization of the interest rate differentials, so that the variation from one business cycle phase to another is moderated. As for CMHC direct loans, the author advocates, in his major recommendation, that the amount of CMHC loans made available each year should be enough to allow the construction of 50,000 new units, regardless of housing and market conditions and fluctuations in privately financed housing construction.

He also advocates the establishment of a permanent mechanism through which all levels of government could co-ordinate the allocation of their resources for the purpose of stabilizing low-income housing.

At the time of writing this study, which served as one of the background studies to the Economic Council's report on instability in the construction sector*, Joseph H. Chung was an economist with the Economic

*Economic Council of Canada, Toward More Stable Growth in Construction, (Ottawa, Information Canada, 1974).

Council of Canada. He is now a professor at the Montreal Campus of the University of Quebec.

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N.B. This study, released under the auspices of the Economic Council of Canada, reflects the views of the author and not necessarily those of the Council.

For more information, contact

Information Service (613) 993-3591.

Economic Council of Canada | Conseil économique du Canada

news release/communiqué

PR 76/26

FOR PUBLICATION
THURSDAY, OCTOBER 7, 1976

OTTAWA -- The academic achievement of students is greatly influenced by the performance and abilities of their fellow students in the classroom. Called the peer group effect, this influence can be altered by changes in the composition of students in the class and thus it constitutes an important tool for educational policy-makers attempting to improve the efficiency of the school system. This is the principal conclusion reached by Vernon Henderson, Peter Mieszkowski and Yvon Sauvageau in a study released today under the auspices of the Economic Council of Canada.*

Data on students moving from kindergarten to grade 3 in Montreal's Catholic French-language schools showed that at these levels, family background and pre-school IQ have a greater impact on academic performance than changes in the peer group mix. However, only the latter can be regulated by educational policy-makers to conform with achievement objectives.

The authors give two explanations of the effects of the peer group. One is that the learning process is a process of interaction between students, with weaker students learning from stronger students in the same

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*VERNON HENDERSON, PETER MIESZKOWSKI and YVON SAUVAGEAU, Peer Group Effects and Educational Production Functions, Economic Council of Canada. (Printing and Publishing, Supply and Services Canada, Ottawa, Cat. No. EC22-45/1976; price: Canada, $3.00; other countries, $3.60, 78 pages.)

class. Hence, more capable students tend to benefit from a homogeneous class situation while weaker students do not. Second, teachers adapt the calibre of their teaching to the average quality of their classes, setting higher standards for classes with higher average student capability.

Students of similar ability and performance have traditionally tended to be placed in the same class. However, this study raises strong doubts about some of the beliefs underlying this procedure. According to the authors, a more heterogeneous class composition, mixing weaker with stronger students, would improve peer group effects and increase overall achievement. "While the stronger students will be adversely affected by the mixing, the weaker students will gain more in terms of absolute achievement than stronger students lose." (63)

Other factors which can be controlled by educational policy-makers include the qualifications of teachers and characteristics of schools, such as access to library facilities, age and repair of buildings, and the surrounding neighbourhood. However, the authors concluded that these variables did not have as strong or consistent effects on achievement. In particular, the assumption that small class size is associated with higher average achievement was not borne out by the sample studied. The optimum class size was found to be between 30 to 40 students at this level, with smaller classes tending to be less effective.

Although the study by Henderson, Mieszkowski and Sauvageau is the most comprehensive to be done in Canada so far, the evidence described, particularly with respect to the importance of peer groups, has been confirmed in other research done under the auspices of the Economic Council. Together, these studies strongly indicate the necessity of some rearrangements in the

provision and management of education. However, the authors warn against educational policies stressing only overall achievement. More mixing of students with varying backgrounds and academic ability might sometimes involve certain tensions and social costs that could detract from the beneficial effects on achievement to be gained through changes in the composition of peer groups. Any revision of educational policies affecting the composition of peer groups should take this concern into account.

The authors are:

Vernon Henderson, currently on leave of absence from Brown University, Providence, Rhode Island

Peter Mieszkowski, Department of Economics, University of Houston

Yvon Sauvageau, Supervisor (Government Finance Section) at the Bank of Canada

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N.B. This study reflects the views of the authors and not necessarily those of the Economic Council of Canada.

For more information, contact

Information Service (613) 993-3591.

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news release/communiqué

PR 27/76

FOR PUBLICATION
THURSDAY, NOVEMBER 4, 1976

OTTAWA -- Although collective bargaining has become the predominant means of setting labour standards in Canada, further improvements in employment conditions to close the gap between organized and unorganized labour will likely have to occur through changes in the application of labour standards law and its agencies. This is one of the main observations of Paul Malles in a study released today under the auspices of the Economic Council of Canada.*

This study represents the first major attempt to relate the development of Canadian labour standards legislation to collective bargaining in order to determine their effect on working conditions. Through government legislation, certain minimum standards of employment have evolved. While these standards vary among federal and provincial jurisdictions, they apply equally to both organized and unorganized labour. However, collective bargaining has proven more capable over time of adapting to the particular needs of individual groups of employees. Consequently, it has often taken the lead in improving employment conditions. For example, although most jurisdictions now prescribe a minimum of 8 paid public holidays, collective bargaining has caused actual conditions to become more favourable than the law. By 1972, most workers enjoyed at least 9 paid holidays and the author notes that the trend is towards an average of one "long weekend" per month.

*Paul Malles, Canadian Labour Standards in Law, Agreement, and Practice, Economic Council of Canada. (Printing and Publishing, Supply and Services Canada, Ottawa, Cat. No. EC 22-44/1976; price: Canada, $3.25; other countries, $3.90, 176 pages.)

The author observes that, until recently, unions have been primarily concerned with issues of "security." Unlike their European counterparts, they have demonstrated little interest in areas such as communications between labour and management, participation of the work force in managerial decision-making, and "job enrichment" through changes in work organization and job design. Instead, they have concentrated on union and employee security and improving fringe benefits, such as health and welfare plans and paid holidays.

However, despite the importance of collective bargaining, the author notes that the majority of workers are not under collective agreement. In particular, agricultural and domestic workers traditionally have not been covered by collective agreement. As well, they have been excluded from legislative protection, although this has shown signs of changing. While professional workers have tended to be in the same position, in recent years a growing number have organized to protect their interests. Some, such as teachers, have developed "professional trade unionism"; to obtain greater job security, others have established employment barriers to regulate entry into their professions, as in the case of lawyers.

Given current legal and organizational conditions, the author deems it unlikely that the percentage of workers under collective agreement will increase significantly. Unions face legal obstacles to organization as well as employer resistance. Moreover, most unorganized workers are in the service sector and, with the exception of public employees, it is difficult to unionize and service them because they are scattered over wide areas and many small undertakings. These employees must therefore rely on the effectiveness of enforcement of the labour standards imposed by statutory regulations. Hence, the primary objective of legislation is to narrow the gap between the wages and working conditions achieved by organized labour and those of the unorganized.

To facilitate this process, the author suggests the possibility of a policy of "extension of contract," along the lines of Quebec's decree system and the various Industrial Standards Acts. Under this system, the benefits obtained by a union would improve the average wages and working conditions of unorganized workers in the respective industry or sector in relation to legal minimum standards. Although Quebec's experience has pointed up certain weaknesses in practice, modifications could be made to overcome these difficulties.

However, some of the labour force would continue to rely solely on the conditions established by government legislation. Consequently, the author advocates improved statutory protection against arbitrary dismissal. As well, he recommends that a greater effort be made to enforce labour standards more effectively through means such as grievance tribunals. He also finds that most complaints are for non-payment of wages and are often made against past employers who are insolvent or difficult to trace. If these claims become an obligation on the governments, claimants would be saved the often lengthy waiting period while enforcement agencies locate the employers and collect the wages owed. Such changes could enable government legislation to be a more effective means of raising the standards of employment.

At the time of writing this study, which served as one of the background studies to the Economic Council's report on the labour market*, Paul Malles was on the staff of the Council. He is now a private consultant in Ottawa.

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*Economic Council of Canada, People and Jobs. A Study of the Canadian Labour Market, (Ottawa, Supply and Services Canada, 1975)

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N.B. This study reflects the views of the author and not necessarily those of the Economic Council of Canada.

For more information, contact Information Service (613) 993-3591.

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PR 76/28

DO NOT PUBLISH BEFORE
11:00 A.M. (EST)
TUESDAY, DECEMBER 21, 1976

*THIRTEENTH ANNUAL REVIEW: THE INFLATION DILEMMA**

OTTAWA -- In its *Thirteenth Annual Review: The Inflation Dilemma*, the Economic Council deals with the effects of inflation on various sectors of the national economy. It also examines the medium-term economic outlook and introduces a new set of performance indicators for the 1975-79 period.

Inflation is a complex phenomenon that affects all economic agents. It begins with an increase in the price of goods and services that forces these agents to spend more to acquire the same objects. This is an expenditure effect that is considered as an increase in costs by the purchaser. However, the price of a commodity or a service also represents the income of those who contribute to its production and sale; wages constitute both a worker's income and a cost for the firm that employs him. In raising prices, inflation therefore affects incomes as well. Finally, these price changes affect the values of outstanding debts and assets held by economic agents in the form of real estate, monetary assets, and stock and shares.

**Thirteenth Annual Review: The Inflation Dilemma*, Economic Council of Canada. (Printing and Publishing, Supply and Services Canada, Ottawa, Catalogue No. EC22-1/1976; price: Canada $5.00; other countries $6.00, 187 pages.)

In its *Thirteenth Annual Review*, the Economic Council seeks to determine who has won and who has lost by the inflation that has occurred in Canada since 1969. For each category of economic agents (households, firms, and governments), it attempts to measure the gains and losses attributable to the effects of inflation on their expenditure, their incomes and their net wealth. No one passively accepts the consequences of inflation, but attempts instead to protect himself by seeking, for example, to adjust his level of income to the rise in costs. The Council therefore examines the extent to which inflation modifies behaviour, anticipations, decision-making and the relationship existing between economic and social partners, especially between labour and management. However, since price changes are the result of various events and decisions, prices do not all change at the same rate. Consequently, some costs and incomes rise faster or slower than others. In the same way, the fluctuations in the real value of the individual's wealth and debts are not identical. During a period of inflation, the rise in prices may penalize some economic agents while favouring others.

The Council also analyzes developments in Canada's trade with the rest of the world in light of world and Canadian inflation. Once again, it emphasizes the absolute necessity of improving our level of productivity. The last chapter reviews the activity of the Anti-Inflation Board and examines future policies.

Three documents have been prepared to give you a quick preview of the general contents of the *Thirteenth Annual Review.*

1) *FULL EMPLOYMENT AND PRICE STABILITY*
2) *INFLATION: WHO WINS, WHO LOSES ?*
3) *IMPROVING THE COMPETITIVENESS AND PRODUCTIVITY OF CANADIAN INDUSTRY*

There is also a condensed table summarizing the gains and losses registered by households, firms, and governments as a result of Canada's recent inflationary experience. These documents provide only an outline of the Review; they constitute neither an abstract nor a summary. Page numbers in parentheses are given for easy reference to the Review itself. The *Thirteenth Annual Review* contains no recommendations.

The Review is available by mail ($5.00 a copy) from: Printing and Publishing, Supply and Services Canada, Ottawa K1A 0S9. *For more information, contact Patrick Robert, Economic Council of Canada, Ottawa K1P 5V6, (613) 993-3591 and 993-1894.*

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PR 76/29

DO NOT PUBLISH BEFORE
11:00 A.M. (EST)
TUESDAY, DECEMBER 21, 1976

FULL EMPLOYMENT AND PRICE STABILITY

OTTAWA -- In its *Thirteenth Annual Review**, the Economic Council again emphasizes the need to stimulate the economy through measures to encourage increased business investment. While the period ahead will likely be one of general economic recovery, without an added stimulus, the pace of expansion will not be sufficient to bring the economy back to high levels of capacity utilization -- assumed by the Council to correspond to 4.5 per cent unemployment -- by 1979.

The Council takes a more optimistic view than most observers about the external conditions that will influence Canada's economic outlook for the next few years. It expects the United States' recovery to continue at the current rate throughout next year, with growth rates slowing in 1978 and 1979. External pressures on Canadian price levels will weaken. As well, fuel import prices will rise an average of 6.6 per cent per year, compared to 23.5 per cent in 1975 and more than 200 per cent in 1974.

**Thirteenth Annual Review: The Inflation Dilemma*, Economic Council of Canada. (Printing and Publishing, Supply and Services Canada, Ottawa, Catalogue No. EC22-1/1976; price: Canada $5.00; other countries $6.00, 187 pages.)

Within Canada, the conditions which have led to higher prices should be significantly moderated as a result of the government's anti-inflation policy, provided that the pattern of restraint continues to be supported by monetary and fiscal policies.

Thus, in the absence of unforeseen developments or changes in policy measures, *"The combined effects of the recovery abroad and the efforts undertaken to curb domestic inflation will generate a relatively high rate of Gross National Product in Canada and a moderate rate of increase in the consumer price index."* (137) The GNP will increase at an average of 5.7 per cent a year in real terms. The recovery will be spurred initially by improving export markets. However, investment will subsequently replace exports as the main source of expansion, increasing at a rising rate averaging close to 6 per cent over the three-year period. Increases in the consumer price index should decline from the current level of 7.8 per cent to less than 6 per cent by 1978, although the depreciation of the Canadian dollar and the removal of the anti-inflation controls may alter the picture somewhat. Despite the recovery, growth in real disposable income per person will fall short of the increases recorded in the early 1970s.

To achieve its full employment target, the Council sets out interim performance indicators which presuppose government initiatives to encourage additional investment in plant, machinery, and equipment. With such a policy, investment could grow at almost 7 per cent a year over the 1975-79 period. The rate of growth of Gross National Expenditure (or GNP) would also rise, and unemployment rates would drop overall to 4.5 per cent, or to 3 per cent for men aged 25 to 54, by 1979.

Since higher levels of investment would expand productive capacity, this drop in unemployment could be achieved without causing a corresponding increase in inflation. However, the additional investment could accelerate the demand for imports, causing a continuation of balance of payments deficits on current account.

The Council remains concerned about the potential recurrence of inflation, and urges upon all levels of government the development of a general consensus on the question of decontrols. *"Continuing restraint on all fronts will be necessary if we are to escape new rounds of inflationary pressures."* (161) The Council stresses that efforts be made to facilitate the productive exchange of ideas on a broad range of issues between the government and various economic interest groups, noting that: *"We agree with the Canadian Labour Congress that it is important for the major economic participants to be involved not only in the decontrol decisions, but also in a continuing critical appraisal of our national priorities and achievements."* (163) While decisions are ultimately the responsibility of the government, based on its political judgment, the Council advocates a process of wide consultation as an important prelude to policy-making.

Recently, there has been a trend towards promoting more direct participation of this sort as, for example, in the discussions following the federal government's Green Paper on Immigration and those that have surrounded the preparation of revisions to the Bank Act. However, the Council believes that the government should go beyond these ad hoc consultative mechanisms to establish a more permanent means of consultation on broad policy issues. This should involve not only representatives from organized

labour and business, but also persons representing consumers, unorganized labour, and other interest groups from all parts of Canada.

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For additional information, contact

Patrick Robert
Economic Council of Canada
P.O. Box 527
Ottawa, Ontario K1P 5V6
Tel. (613) 993-3591 and 993-1894

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PR 76/30

DO NOT PUBLISH BEFORE
11:00 A.M. (EST)
TUESDAY, DECEMBER 21, 1976

INFLATION: WHO WINS, WHO LOSES?

OTTAWA -- In addition to affecting the costs and expenditure of all economic agents, inflation also changes their income and the real value of their assets and debts. Although it is difficult to measure this impact accurately, the Economic Council, in its *Thirteenth Annual Review,* attempts to draw up a balance sheet showing the consequences of these three effects (on households, firms and governments).* For all these groups, the Council finds that inflation has generally rewarded those who spend and speculate and has penalized those who save.

YOUNG MIDDLE-INCOME FAMILIES SEEM TO HAVE WITHSTOOD INFLATION BEST

Households in all income classes and age groups recorded real income gains from 1969 to 1975. However, these gains were offset to varying degrees by the negative effects of inflation on financial savings and on particular types of income and assets as well as by the rise in the cost of living.

While taking into account other factors likely to have changed the situation of Canadian households, the Council concludes that the expenditures

**Thirteenth Annual Review: The Inflation Dilemma*, Economic Council of Canada. (Printing and Publishing, Supply and Services Canada, Ottawa, Catalogue No. EC22-1/1976; price: Canada $5.00; other countries, $6.00, 187 pages.)

of different types of households were affected almost uniformly by the rising cost of living. Because of inflation, each Canadian family generally had to spend half again as much money in 1975 as in 1969 to maintain the same real consumption level; that is, to buy the same products and services as six years earlier (20). The Council notes, however, that this expenditure effect was more pronounced in older or lower income households because of the increase in the price of basic necessities, particularly food products and housing (20). In 1969, food, housing, and transportation accounted for 70 per cent of total expenditure in households with an income under $4,000, but only 40 per cent in households with an income over $15,000. Food prices increased at a higher rate than consumer prices as a whole: 15 per cent in 1973, 16 per cent in 1974, and 13 per cent in 1975. As for housing, the skyrocketing prices of recent years are only too well known. Between 1971 and 1975, the increase in the cost of houses financed under the National Housing Act (NHA) varied between 72 and 124 per cent in Ottawa, Toronto, Montreal, Edmonton, Winnipeg, and Calgary (92). Transportation costs registered only a slight increase from 1969 to 1973, but they also tended to rise much more rapidly in 1974 and 1975. In short, while the rise in prices affected all Canadian consumers, poor families suffered most.

On the income side, organized labour was successful in matching wage and salary increases to the rising cost of living in 1975 and 1976. This has worked to the advantage of middle and lower income families for whom wages and salaries are the major source of earnings. Moreover, low-income households have also benefited from increases in their payments from government plans.

The income of older families was affected to varying degrees depending on the nature and relative importance of pension plans in their

income. Benefits paid by the Canada Pension Plan were protected from inflation because they are automatically indexed to the cost of living (36), whereas those from fixed-income pensions were seriously eroded. Thus, for example, because of the continual rise in prices, fixed-income pensions for those who retired in 1969 were worth in 1975 only two-thirds of their initial buying power (37).

Inflation also changed the real value of both the assets and debts of households. All assets carrying a fixed money value registered losses in real value. Such is the case for holdings of cash, bonds or mortgages. By contrast, households in debt saw the purchasing value of the principal and interest they owed decline. Inflation has thus caused a transfer of wealth from lenders to borrowers. Wealthier families were relatively hardest hit by inflation, since it seriously eroded their investment income as well as the real value of their financial investments. On the whole, middle-income households experienced real gains because their assets tended to be largely in the form of real estate holdings. Almost two-thirds of the assets of middle-income households were of this type, compared with less than half for low-income households and one-third for higher income households (21). Property and home ownership have proven to be the safest forms of investment for individuals during inflation because the value of real estate increases with inflation while the real value of mortgage payments decreases. Few lower income families could afford their own homes, while for high-income families, real estate was relatively less important in their total assets. They therefore did not benefit much from the advantages of this type of investment. Furthermore, since poor households generally could not afford to carry debt, they did not gain the advantages accruing to borrowers during inflation. Although wealthy households carried the largest debt in absolute

terms, this liability was more than offset by very large holdings of net assets, and they were net losers in the process.

Taking into account all the effects of inflation on expenditures, through the rise in prices, on income and on assets and debts, the Economic Council concludes that young middle-income families appeared to be the overall winners. Older families and the rich were the principal losers. Although the income position of low-income households improved, the value of their assets was eroded.

THE IMPACT OF INFLATION ON CORPORATE INCOME

Inflation has similarly altered the income and wealth positions of businesses. In combination with traditional methods for calculating depreciation allowances and the value of inventories, inflation has resulted in an overstatement of taxable profits (42-47 and Table 4-1). As well, firms carrying large amounts of cash balances lost ground as inflation undermined the purchasing power of this stock of money. The Council notes that in 1974 this *"inflationary tax"* caused losses in the order of $90 million for the manufacturing sector and $135 million for the other sectors (Table 4-2, p. 48). However, corporations have not lost in all respects. Because inflation also eroded the value of their debts, companies which have been net short- or long-term borrowers have achieved real gains on their debts as well as on the interest paid each year to their creditors. Here again, there has been an unexpected transfer of wealth from lenders to borrowers (Table 4-4, p. 52). The Council estimates that the amount of this type of gain approached $900 million in 1974.

The Council has attempted to draw up an overall balance sheet for the different effects of inflation, and the income of nonfinancial firms in Canada (Table 4-6, p. 55). It finds that the impact of the inflation attributable to the present tax regulation and to short-term income transfers has considerably decreased the real income of manufacturing and other industries in 1973 and 1974, compared with what it would have been without inflation.

GOVERNMENTS HAVE TENDED TO BENEFIT FROM INFLATION

For governments, inflation resulted in an increase in tax receipts at the federal and provincial levels (64). In a period of inflation, individuals and corporations move into higher income brackets with higher rates of taxation on income and profits. They also register new nominal capital gains which are also taxable. Of course, indexation of personal income tax is designed to cancel this effect. Without this indexation, inflation would have added $3 billion to tax receipts for 1976. Nonetheless, indexation did not eliminate all inflationary distortions. Personal exemptions for taxpayers often have a fixed value and their real value therefore tends to decrease in a period of inflation. Moreover, indexation is based on the cost of living in preceding years; if the inflation rate accelerates, indexation will fail to eliminate all distortions related to the progressive tax structure and deductions.

Corporate income tax is not indexed, and the Council has found that because of inflation, the increase of tax receipts from corporate tax exceeded $2.6 billion in 1974 (65 and Table 5-3, p. 66).

As a result of these unexpected transfers of real income from firms and individuals, the federal government and, to a lesser extent, the provincial governments were the real winners from the recent surge of inflation. In general, these additional revenues have permitted all levels of government to increase their expenditures and undertake increasing involvement in national economic activity. However, the Council notes that not all levels of government are equally responsible for this growth.

Canada's gross national expenditure (GNE) in current dollars multiplied five times between 1955 and 1975, while federal expenditures increased six times and local and provincial government spending grew ten and twenty times respectively! Rising local and provincial government expenditures represented five-sixths of the growing government expenditures in GNE, while federal spending accounted for only one-sixth. Thus, the Council writes that *"to single out federal spending as the main cause of our present inflation is perhaps to misplace somewhat the true perspective"* (60). Local governments, however, lost ground because, in their case, property tax assessments increase much less rapidly than the market value of real estate. Therefore, the rise in property tax has trailed the inflationary increase in local expenditure (64) and, as a result, local governments increasingly depend on provincial transfers to finance their expenditures.

Furthermore, like all debtors, the federal and provincial governments are favoured by the increase in the rate of inflation because it reduces the real value of the capital borrowed and the interest obligations incurred when interest rates were lower than those that reflect the present level and trend of prices (70). The Council finds that since 1970, the federal government has profited from inflation as a debtor despite the fact that it

must pay a higher average interest rate on its debts; the same holds true for provincial and local governments (70 and Tables 5-5 and 5-6). Comparing the effects of inflation on each level of government, the Council states that "*the tilt of the inflation-induced gains is towards the federal government and away from local governments, which runs counter to what many agree to be the direction of fiscal need....*" It adds that "*to the extent that these transfers constitute 'inflationary taxes' on individual taxpayers and firms, who in turn set themselves post-tax income targets in their wage and price strategies, the transfers may add to the severity of the inflationary dilemma.*" (73)

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For additional information, contact

Patrick Robert
Economic Council of Canada
P.O. Box 527
Ottawa, Ontario K1P 5V6
Tel. (613) 993-3591 and 993-1894

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news release/communiqué

...EMBARGO......EMBARGO......EMBARGO......EMBARGO......EMBARGO......EMBARGO...

PR 76/31

DO NOT PUBLISH BEFORE
11:00 A.M. (EST)
TUESDAY, DECEMBER 21, 1976

IMPROVING THE COMPETITIVENESS AND PRODUCTIVITY OF CANADIAN INDUSTRY

OTTAWA -- Since the price of a commodity or service represents both an expenditure and a cost, inflation has had serious consequences beyond its impact on household budgets, business income, and the expenditures and revenues of governments. In addition, by increasing the costs of production it has greatly impaired the competitiveness of Canadian industry in foreign markets.*

In its analysis of these higher costs, the Economic Council distinguishes between the increase in labour costs and that in financial costs. On the whole, the annual increase in financial costs per unit produced changed only slightly up to the early 1970s and remained below 3 per cent. Since 1972, it has accelerated considerably, particularly because of climbing interest rates, and reached 31.1 per cent in 1975. As for labour costs, increasing wage demands occurred as employees attempted to protect, regain, or increase their real incomes in the face of a strong rise in consumer

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**Thirteenth Annual Review: The Inflation Dilemma*, Economic Council of Canada. (Printing and Publishing, Supply and Services Canada, Ottawa, Catalogue No. EC22-1/1976; price: Canada $5.00; other countries, $6.00, 187 pages.)

prices. In combination with the small gains in productivity, these wage increases helped to increase the unit costs of labour. Altogether, the annual rate of increase in the unit costs of firms accelerated from 3.7 per cent in 1971 to 12.7 per cent in 1975. If this trend continues, the Council warns that it *"could well jeopardize our ability to compete in international trade markets."* (99)

In fact, this acceleration in costs has caused Canada's balance of trade to deteriorate steadily since 1970 and has turned our trade surplus into a deficit (101). Excluding automotive products, the Council shows that the competitiveness index of the volume of our manufactured exports fell to almost 80 in recent years, after exceeding 108 in 1962 (105). This drop in competitiveness reveals serious structural problems and explains why Canada's share of world exports of manufactured products has continued to decrease since the mid-1960s. The Council is all the more concerned over this development because our exports of petroleum will continue to decrease while our imports will again begin to increase in 1978 (108).

To some degree, fluctuations in the exchange rate of the Canadian dollar have worsened or offset this unfavourable cost position. For example, in 1974 the appreciation of the Canadian dollar relative to the U.S. dollar aggravated our short-run competitive position in manufacturing. Conversely, the depreciation of the Canadian dollar in 1975 more than offset the higher domestic increase in unit labour costs in Canada. The Council maintains, as it did last year, that although devaluation of the Canadian dollar would stimulate our exports, it would also stir up inflation by increasing the price of imported goods. Thus, it could only act as a stop-gap measure. *"The longer term solution involves a strengthening of the competitive efficiency and productivity of our industries."* (110)

Of course, rising costs and currency appreciation have undermined the competitive position of other suppliers of manufactured goods as well. Despite this erosion, certain countries have remained keenly and aggressively competitive, with their annual increases in productivity far surpassing that of Canada. However, Canada is far from being the only country to impose anti-inflation controls. Other countries have resorted to similar policies in the hopes of at least avoiding additional increases in inflation that would further undermine their competitiveness in foreign markets (150-154). In this context, the Council concludes that *"Canada's trade competitiveness will undoubtedly benefit if rates of inflation can be slowed down by the wage and price controls and by a balanced tightening of monetary policy and fiscal spending."* (114)

Accordingly, if the Canadian Government continues to implement the program with energy and determination, it can achieve even better results next year. Nevertheless, the critical factor in its success is *"the need for a broadly based acceptance of the program within Canada."* (160) If the government cannot maintain a political consensus favourable to controls program, it will have to be dismantled.

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For additional information, contact

Patrick Robert
Economic Council of Canada
P.O. Box 527
Ottawa, Ontario K1P 5V6
Tel. (613) 993-3591 and 993-1894

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PR 76/32

DO NOT PUBLISH BEFORE
11:00 A.M. (EST)
TUESDAY, DECEMBER 21, 1976

INFLATION: BALANCE-SHEET OF THE LOSSES AND THE GAINS

"The gainers attribute their gain to their own perspicacity, energy and virtue; the losers attribute their losses to inflation."

Robert M. Solow, "The Intelligent Citizen's Guide to Inflation," *The Public Interest*, No. 38 (Winter 1975)

**Thirteenth Annual Review: The Inflation Dilemma*, Economic Council of Canada. (Printing and Publishing, Supply and Services Canada, Ottawa, Catalogue No. EC22-1/1976; price: Canada $5.00; other countries, $6.00, 187 pages.)

Summary of Inflation-Induced Gains and Losses to Households, Business, and Government, 1969-75

Inflation losses by:	Inflation gains by:		
	Households	Business	Governments
Households	Debtors gained from creditors. The proportion of multi-earner families in the labour force grew, and their income increased more than single-earner families. As a result, middle-age families did better than young or old families, even though young families, more heavily in debt, were helped by inflation on both their liabilities and income. Home owners did better than renters.	Households holding short- and long-term corporate bonds, stocks, and securities lost; firms issuing liabilities gained. Pensioners lost on the eroded value of their pensions; corporate borrowers from pension plans gained. Households with cash balances and demand deposits lost to banks.	Households lost through personal income taxes that were not fully indexed; federal and provincial governments gained. Households lost on their holdings of Canada Savings Bonds and other federal, provincial, and local debt. All levels of government gained.
Business	Corporate holders of long-term household debts, such as real estate mortgages, lost; mortgagors gained.	Financial sector gained from the manufacturing and nonmanufacturing sectors through its short-term liabilities and holdings of client demand deposits. Financial sector lost to other business sectors on its holdings of their long-term securities. Corporate borrowers gained from corporate contributors to private pension funds in amounts roughly equal to their unfunded pension liabilities.	Business lost in corporate taxes because of the required use of historical cost accounting for capital cost allowances. Business also lost in corporate taxes because of the required method of accounting for inventory valuation. In both cases, the federal and provincial governments gained. Banks lost on their holdings of federal notes and reserves; the federal government gained.
Governments	Property owners gained and local governments lost because of lags in property assessment. Indexation of personal income taxes and transfers represented a gain to households and a loss to the federal and provincial governments. Households gained in real terms through enriched or new expenditures or extra tax relief introduced as a direct result of the extra inflation-induced federal and provincial revenues.	Corporate borrowers gained from tax allowances on their debt interest payments; federal and provincial governments lost. Corporate property holders gained and local governments lost through lags in property assessment. Corporations gained in the same way as households, from extra government expenditures and subsidies resulting directly from the higher inflation-induced tax revenues.	Federal government lost to the provinces borrowing from the Canada Pension Plan. Provincial governments benefited from enlarged shares of federal-provincial transfers directly attributable to extra inflation-induced revenues. Local governments benefited from similarly enlarged provincial transfers and federal expenditures.

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news release/communiqué

PR 01/77

FOR PUBLICATION
THURSDAY, JANUARY 13, 1977

OTTAWA -- Workers in Canada are generally slow to respond to regional disparities in income and employment conditions by migrating to more prosperous areas. Although some sluggishness is unavoidable, certain measures could be adopted to make migration more effective as a process of labour market adjustment. This is the main conclusion of E. Kenneth Grant and John Vanderkamp in a study released today under the auspices of the Economic Council of Canada.*

Using the data base established by the Unemployment Insurance Commission, the authors have delineated a general pattern of migration in Canada from 1965 to 1971. With some exceptions, migration occurs in response to more favourable income and employment conditions elsewhere. Thus Ontario, British Columbia, and Alberta are net gainers from interprovincial migration; Saskatchewan, Manitoba, and most of the Maritime provinces are net losers.

Although the authors believe that migration has helped to alleviate regional disparities, they observe a number of obstacles which slow this adjustment process. A major difficulty is the similarity of economic processes occuring within the different regions of Canada. For example, a decline in agricultural employment is unlikely to be restricted to the Regina area but will probably be felt by most of the Prairie provinces and other provinces as

*E. Kenneth Grant, John Vanderkamp, The Economic Causes and Effects of Migration: Canada, 1965-71. (Printing and Publishing, Supply and Services Canada, Ottawa, Cat. No. EC 22-48/1976; price: Canada, $4.00; other countries, $4.80, 124 pages.)

well. As a result, migrants may have to move longer distances in order to respond to changing employment conditions. In fact, those moving outside the province subsequently appear to fare better than those making shorter moves. In 1968-69, the precentage increase in incomes for interprovincial movers was 13 per cent, whereas interregional movers gained 10 per cent.

As well, the authors find that migration responses are cyclical, depending on national economic conditions. In 1970, when employment conditions worsened throughout Canada, worker mobility also declined, and those who migrated obtained less favourable income increases immediately after their move. Therefore, regional imbalances appear more likely to persist when the economy as a whole is depressed.

The migration process itself may even add somewhat to regional disparities in the short run. For example, since most unemployed persons have purchasing power, often with the help of federal transfers such as unemployment insurance, they can continue to demand locally produced goods and services which, in turn, help to maintain local employment opportunities. When these persons migrate, the immediate effect is therefore to further depress employment conditions in the region.

Despite these obstacles, the authors are optimistic that worker migration can help to offset market imbalances. In addition to the manpower mobility grants that are available on a limited basis through Canada Manpower Centres, they propose that migration loans be made to help workers finance their moves. These loans would be repayable only if the worker was successful in finding employment. As well, they recommend that Canada Manpower Centres attempt to provide more labour market information, particularly for regions which are further away. This should help to reduce the incidence of "return migration", which often occurs because the worker is disappointed in his employment expectations after moving. Finally, the authors advocate

that the Unemployment Insurance Act be altered. In its present form it provides a disincentive to migration since unemployed workers in high-unemployment regions can draw benefits longer than in low-unemployment regions. If migrants could continue to receive these privileges for one year after moving, this disincentive effect could be reduced.

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N.B. This study reflects the views of the authors and not necessarily those of the Economic Council of Canada.

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news release/communiqué

R 77/02 FOR IMMEDIATE RELEASE

THE LABOUR MARKET: STATISTICS NOW IN USE MASK THE REAL SITUATION

OTTAWA -- Several studies have been undertaken to analyse labour arket behaviour in Canada. Most of them have made use of "stock" figures f employment and unemployment -- that is, "snapshot" statistics describing he state of the labour market at various points in time. Much of this type f data is obtained from the Labour Force Survey released monthly by Statistics anada. However, these figures do not reveal anything about the movements of flows" of people entering, leaving, or acting within the labour force during he period studied. Consequently, they may obscure important aspects of abour market activity.

A different approach has been taken in The Short-Run Dynamics of he Canadian Labour Market*, a study written by Frank T. Denton, Christine H. 'eaver, and A. Leslie Robb and published today under the auspices of the conomic Council of Canada. Using 1972 data, the authors found that gross lows of population in the labour market could be very large even when net lows were relatively small. For example, during an average month in 1972 he net change in employment, ignoring external changes, was an increase of

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*Frank T. Denton, Christine H. Feaver and A. Leslie Robb, The Short-Run Dynamics of the Canadian Labour Market, Economic Council of Canada. (Printing and Publishing, Supply and Services Canada, Ottawa, Cat. No. EC 22-46/1976; price: Canada, $3.25; other countries, $3.90, 97 pages.)

wo thousand. This small increase was the net result of much larger gross lows: 356 thousand people found work, while about 354 thousand people ither became unemployed or left the labour force. These flows would have een even greater if external factors, such as immigration and emigration ere included and if account was taken of people who move directly from one ob to another without spending an interim period outside the labour force r unemployed.

Noting the magnitude of these flows relative to changes in the tocks, the authors concluded that the customary use of stock behaviour does ot adequately describe labour market activity. Hence, the major objective f their study was to develop a model based on flow behaviour to analyse he short-term performance of the Canadian labour market. They found that his approach provided a more accurate reflection of labour market movements nd consequently facilitated greater understanding of other important aspects f labour market behaviour.

For example, when unemployment levels rise, those unemployed may ecome discouraged in their search for jobs and withdraw from the labour force. This is called the "discouraged worker" phenomenon. It results in a ertain amount of "hidden unemployment" as persons outside the labour force hoose to delay their entry until employment conditions improve. While conventional analysis has made little headway in exploring the extent of this behaviour, the authors believe that their model would be more successful. Its use in their study revealed that, although men and women generally tend to respond to changes in unemployment conditions in much the same manner, the "discouraged worker" phenomenon is peculiar to men rather than women.

This study served as one of the background studies to the Economic Council's report on the labour market.* Its findings prompted the Council's observation that it is no longer realistic to view the labour force as being composed primarily of workers who stay put in their jobs, with only a few changing jobs frequently or experiencing recurring or long periods of unemployment. Accordingly, the Council recommended that, to improve our knowledge of the labour market, Statistics Canada, with the co-operation of other departments and agencies, develop, publish, and analyse additional information with respect to employment, unemployment, turnover, gross flows, and the wages and incomes of families and individuals. (p. 37, People and Jobs)

The three authors are currently with the Department of Economics at McMaster University, Hamilton, Ontario.

*Economic Council of Canada, People and Jobs: A Study of the Canadian Labour Market, (Ottawa, Supply and Services Canada, 1975)

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N.B. This study reflects the views of the authors and not necessarily those of the Economic Council of Canada.

For more information, contact

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PR 77/03

FOR IMMEDIATE RELEASE

OTTAWA -- Despite the recent turbulence in international financial markets, Canadian banks have continued to increase the scope of their foreign banking activities. Between 1964 and 1974 their total foreign currency assets increased five times and, by 1974, constituted almost 30 per cent of their total assets, compared to 22 per cent ten years earlier. In other words, Canadian banks have been expanding their activities more rapidly in international markets than at home.

In a study* released today under the auspices of the Economic Council of Canada, Wayne Clendenning has described Euro-currency markets and the growing role of Canadian banks internationally. He observes that this development has had many advantages, such as the export earnings and higher domestic tax revenues generated by the additional bank earnings from international operations.

However, he notes that it has also exposed Canada and Canadian banks to those risks and problems shared by other countries and institutions in these markets. For example, the risk of default is greater in the international sphere where it is more difficult to assess credit standings

*Wayne Clendenning, The Euro-Currency Markets and the International Activities of Canadian Banks, Economic Council of Canada. (Printing and Publishing, Supply and Services Canada, Ottawa, Cat. No. EC22-49/1977; price: Canada, $4.00; other countries, $4.80; 150 pages.)

and to obtain information about borrowers and lenders. As well, the highly volatile nature of international funds, the foreign exchange transactions involed, and the administrative problems of world-wide operations combine to make international financial operations a more uncertain venture than domestic activities.

Canadian banks have consequently adopted a relatively cautious approach to their international dealings. As a result, the author notes that their international loss experience has not been unsatisfactory or out of line with their domestic experience despite these greater risks. Moreover, Canada's international reputation is evidence of the success of this approach. The author warns, however, that more must be done to ensure that this good reputation continues as Canadian banks continue to increase their international exposure relative to their domestic operations.

For example, one of the major advantages of Canadian banks internationally has been their unique domestic deposit base. Unlike their major foreign counterparts, Canadian banks have a geographically widespread retail deposit base which is also largely covered by a deposit insurance system. Other banks of comparable size but lacking such a stable deposit base have been forced to move to higher interest-rate tiers in the Euro-currency markets. However, the current system of deposit insurance places much of the burden on the Canadian taxpayer and the author believes it should be reformed to better reflect the risks faced by institutions in their international dealings.

As well, the author proposes that data be collected and published more extensively on the various aspects of the banks' world-wide operations so that the risks of these activities to both the banks and the domestic banking system can be more accurately assessed.

Furthermore, he suggests that present taxation policy be altered. Among other things, he advocates that it provide banks with an incentive to repatriate profits earned on their foreign activities so that taxes on these revenues accrue to the Canadian government rather than to foreign governments, as they do now.

Wayne Clendenning is currently on contract with the Economic Council of Canada to work on the second phase of the Council's research on Canada's financial markets. The results of the first phase of research were published last September in a report entitled, Efficiency and Regulation, A Study of Deposit Institutions.*

*Economic Council of Canada, Efficiency and Regulation, A Study of Deposit Institutions. (Printing and Publishing, Supply and Services Canada, Ottawa, Catalogue No. EC22-47/1976; price: Canada, $5.00; other countries, $6.00.)

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N.B. This study reflects the views of the author and not necessarily those of the Economic Council of Canada.

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news release/communiqué

PR 77/04

FOR RELEASE
March 31, 1977

OTTAWA -- William Haviland, Secretary of the Economic Council of Canada, warned today that further rapid increases in health care spending have become politically untenable and could occur only at the expense of other important government programs. In a speech delivered in Ottawa before the Canadian Nurses' Association Annual Meeting, he observed that, after World War II, health care expenditures became one of the most rapidly expanding areas of public spending. Total health care expenditures have been rising at an annual rate of over 11 per cent, and have now reached about $12 billion a year, or about $520 per Canadian. Much of the increase has occurred in hospital costs. Improved methods of treatment and more care, as well as inflation, have caused hospital costs to soar from $20 per patient day in 1960 to about $115 currently.

According to Dr. Haviland, this situation has reflected a general trend in western countries over the past two decades. These countries have relied increasingly on government intervention as a means of improving social welfare and justice. Health care spending in Canada now accounts for 6 1/2 per cent of Gross National Product, which

is above the average of some 20 industrial countries, although it does not exceed some of the more advanced ones such as the United States. Moreover, total health care expenditures have been rising faster in Canada than in the United States.

Dr. Haviland recalled that the Economic Council had voiced its concern about this trend six and a half years ago in its Seventh Annual Review. Pointing to the increasingly large proportion of national resources going into health care activities, the Council cautioned that this situation was unsustainable and urged "that the wider economic and social aspects of health care ... become a matter of growing public concern." However, he observed that it is only recently that there has been widespread questioning of social policies in general and of the concomitant government intervention and regulation.

He said that, in light of these new doubts, the Council's forthcoming Fourteenth Annual Review would be devoted to a review of the role of government in Canada. The Review, which will be published in about eight months, will study how well the government's social policies have succeeded in distributing benefits fairly among Canadians. As well, it will investigate the degree to which these policies conflict with market forces. Among the programs to be studied, according to Dr. Haviland, is the system of medicare, which comprises roughly three-quarters of health care spending. He noted that an important question to be answered here is whether free health care really ensures equal access to health care services, as was originally intended. Who pays and who gains?

Dr. Haviland foresees some slowing in health care spending over the next ten years in so far as there is less scope for further extensions in medicare coverage and because much of the needed catch-up in pay and work standards for lower income personnel has been accomplished. Working in the opposite direction, however, is the aging process of the population, since elderly people need relatively more health care.

Taking these trends into account, as well as public resistance, he advocated tying increases in health care spending to the increase in the economy. Accordingly, he suggested that the provincial and federal governments agree to limit their expenditures on health care to the recent level of 6 1/2 per cent of Gross National Product. In Dr. Haviland's opinion, this is a target which consumers, taxpayers, and other main interest groups can and should learn to live with.

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PR 77/06

NOT TO BE PUBLISHED BEFORE
11:00 a.m. (EST)
WEDNESDAY, APRIL 20, 1977

THE COUNCIL PUBLISHES
ITS REPORT ON REGIONAL DEVELOPMENT

OTTAWA -- Acting Chairman, George Post, today released a report by the Economic Council of Canada entitled *LIVING TOGETHER: A Study of Regional Disparities**. The Council's analysis of the full range of regional disparities reveals that they continue to be intolerably large. Chapters 2, 3 and 4 of the report are devoted to measuring these disparities more extensively and carefully than has been done before, and to examining the objectives of regional policies. They focus on three primary goals: reducing the gaps between provinces in unemployment rates, population growth rates and standards of living. The Council observes that the entire problem of regional disparities cannot be solved at once. Therefore, it gives its views on the appropriate priorities among the competing goals.

The Council breaks new ground in examining a number of important causes of disparities that have previously received scant attention from researchers and decision-makers in Canada. Five chapters are devoted

*Economic Council of Canada, *LIVING TOGETHER: A Study of Regional Disparities*. (Printing and Publishing, Supply and Services Canada, Ottawa, Catalogue No. EC22-54/1977; price: Canada, \$5.50; other countries, \$6.60; 251 pages.)

to analyzing income and unemployment gaps, and the Council's conclusions and recommendations are presented in Chapter 10. In general, the Council concludes that it is possible to improve the present situation while still respecting two principles that it deems fundamental. *"One is that the proportion of Gross National Product passing through the hands of governments as a group should not increase."* In other words, the Council has avoided making recommendations that would require an increase in taxes. *"The other is that local efforts are better than help from outside."* In the Council's view, there is considerable room for provincial government initiatives to reduce regional disparities.

The Council's report has 251 pages, divided into 10 chapters and three appendixes, illustrated by 78 tables and 25 charts. The Council's 16 recommendations will be found in Chapter 10. Three press releases have been prepared for your use in order to give you a rapid overview of the general contents of the report. They are accompanied by a special release for each of four regions -- the Atlantic provinces, Quebec, the Prairies, and British Columbia -- which outlines aspects of the report that are particularly relevant for these regions.

The report is available for $5.50 in bookstores selling Canadian government publications. It can also be ordered from Printing and Publishing, Supply and Services Canada, Ottawa, K1A 0S9.

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For further information, contact

Information Services
Economic Council of Canada
P.O. Box 527, Ottawa, Ontario, K1P 5V6
Tel: (613) 993-1894

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PR 77/07

NOT TO BE PUBLISHED BEFORE
11:00 a.m. (EST)
WEDNESDAY, APRIL 20, 1977

MEASURING THE EXTENT OF REGIONAL DISPARITIES

OTTAWA -- For several years, a large share of government expenditures has been devoted to achieving more uniform economic growth across Canada. Either directly or indirectly, equalization payments, income support programs, and investment incentives such as those administered by the Department of Regional Economic Expansion are aimed at helping to balance economic conditions in the various regions. The migration of workers between provinces and the development of the industrial structure also contribute to this end, especially in the area of job opportunity. These efforts have reflected a general belief that one of the main objectives of our society is to achieve greater equality of economic opportunity. However, the Economic Council of Canada concludes in a report published today* *(LIVING TOGETHER: A Study of Regional Disparities)*, that despite these endeavours, *"economic well-being is sharply affected by the region one happens to be born or brought up in."*

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*Economic Council of Canada, *LIVING TOGETHER: A Study of Regional Disparities*. (Printing and Publishing, Supply and Services Canada, Ottawa, Catalogue No. EC22-54/1977; price: Canada, \$5.50; other countries, \$6.60; 251 pages.)

It is certainly true that income gaps differ significantly according to the way they are measured; depending on whether one looks at individuals or families, includes or excludes transfer payments, and allows for regional differences in living costs. Regardless of the method of calculation, however, income disparities remain real and substantial.

The Council's research shows that while the gaps in wages and salaries per person employed have tended to converge towards the national average, earnings per worker in the Atlantic provinces are only 87 per cent of the Canadian average. In Ontario they are 107 per cent of the Canadian average. When government transfers are considered in addition to market income -- which includes not only wages and salaries but also farm income and dividend and interest income -- these disparities are reduced somewhat. For example, average market income in 1970 in Newfoundland was 54 per cent less than in Ontario; transfers reduced this gap to 47 per cent. This does not change the fact, however, that personal income in Ontario is still almost twice that in Newfoundland. Transfers reduce income disparities but they do not eliminate them.

These gaps <u>between</u> regions are also accompanied by gaps <u>within</u> each region. Not only does Ontario enjoy relatively high income levels compared to other provinces but these incomes are also more equally distributed. Using data from 1970, it was found that most families in Ontario were concentrated in the $10,000-$14,999 annual income bracket. This was also the case for Alberta, British Columbia and the Yukon. Conversely, most families in Newfoundland earned between $1,000 and $3,999; the corresponding income range in Prince Edward Island, New Brunswick and Nova Scotia was $4,000 to $6,999, and $7,000 to $9,999 in Quebec.

In light of this data, the Council concludes that although *"equity among people rather than equity among regions should be the prime concern of policy-makers,"* nevertheless *"equity among people requires policy actions that are related to provinces or regions."*

Unemployment gaps are even more serious than disparities in per capita income and they tend to affect the same regions. British Columbia and the Prairies are the exceptions: in British Columbia high per capita income is accompanied by high unemployment; the opposite holds true in the Prairies, which have low unemployment and low per capita income. From 1955 to 1975, unemployment in British Columbia averaged 6.0 per cent, or almost double the 3.3 per cent registered in the Prairies. The Atlantic region had the most serious rate of unemployment with 8.6 per cent, while Quebec came next with 7.0 per cent. These differences are well known. It is less widely recognized that when unemployment increases throughout Canada, it increases most in those regions where it is already highest. The Council estimates that a rise in unemployment of 1 per cent in Ontario would normally be accompanied by an increase of 1.3 per cent in the Prairies, 1.5 per cent in British Columbia, 2 per cent in Quebec, and 2.9 per cent in the Atlantic provinces. It notes that the higher unemployment rates in the Atlantic region, Quebec and, to a lesser extent, British Columbia, can only partly be explained by seasonal unemployment.

The Council also finds that, contrary to popular belief, regional disparities in unemployment bear little relation to growth in employment opportunities. Rapid growth in employment in British Columbia is accompanied by high unemployment. By contrast, unemployment is generally low in Saskatchewan and Manitoba despite a very slow increase in employment.

Only in the Atlantic provinces is slower-than-average growth in employment accompanied by persistently high unemployment. Nor does it seem that migration is important in alleviating unemployment problems. Between 1955 and 1971, for example, unemployment in the Atlantic provinces averaged 8.6 per cent, or about 3 per cent higher than the national average. During this period, the number of migrants to other regions represented approximately 15 per cent of the region's population. In theory, this should have been sufficient to eliminate the 3 per cent unemployment gap five times over. Yet the gap still exists! It appears, therefore, that migration has only served to prevent the situation from worsening.

Migration does influence population growth in each region, which in turn affects aggregate economic growth. For several years Ontario and British Columbia have been the preferred destination of both immigrants and Canadian migrants. Projections based on this information and on recent demographic trends show that the total population in these two provinces will grow more rapidly than anywhere else, and that they will be the only two regions to experience an increase in working-age population after 1985. In the other regions, growth in the labour force will by then be practically nil. The Economic Council therefore concludes that *"unless there are considerable increases in participation rates or major advances in productivity, these regions will experience very weak economic growth."*

In short, even though there is no general criterion for determining whether life is better in some parts of Canada than others, the disparities are real and the probability of being rich or poor and finding a job differs from one region to another.

The Council is optimistic about the prospects for improving the situation even though *"the factors underlying regional disparities have turned out to be extraordinarily complex."* In the Council's view, the tendency to concentrate on the role of industrial structure, physical capital, endowment in natural resources, and transportation in regional development, has caused other equally important factors to be neglected. In particular, the roles of human capital, the propensity to spend and technological gaps have been underemphasized. *"A recognition of these rarely discussed causes of disparities leads us to believe,"* writes the Council, *"that the arsenal of effective policy weapons could be broadened with little or no increase in taxes, and that there is scope for much more provincial action than at present."*

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For more information, contact

Information Services
Economic Council of Canada
P.O. Box 527, Ottawa, Ontario, K1P 5V6
Tel: (613) 993-1894

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PR 77/08

NOT TO BE PUBLISHED BEFORE
11:00 a.m. (EST)
WEDNESDAY, APRIL 20, 1977

INCOME GAPS: IDENTIFYING THE CAUSES AND SOLUTIONS

OTTAWA -- *"Regional disparities in unemployment rates and rates of employment growth cannot be gainsaid: they are large and clear-cut."* None-theless, the Economic Council remains optimistic that the situation can be improved. In a report published today* entitled *LIVING TOGETHER: A Study of Regional Disparities*, it concludes that we have unnecessarily restricted our choice of methods for effecting this improvement by overlooking some important factors in regional development.

The Council has deliberately limited the scope of its study to those factors which it judges likely to be significant for reducing disparities in two major areas: unemployment and income. It attributes differences in per capita income mainly to the fact that some regions make less efficient use of their resources than others. In other words, the major cause of income disparities is the productivity gaps between regions.

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*Economic Council of Canada, *LIVING TOGETHER: A Study of Regional Disparities*. (Printing and Publishing, Supply and Services Canada, Ottawa, Catalogue No. EC22-54/1977; price: Canada, $5.50; other countries, $6.60; 251 pages.)

These gaps have most often been attributed to a less favourable industrial structure or to an insufficient stock of capital per worker. Hence, policies designed to eliminate disparities have focused on correcting these variables. However, the Council's research indicates that industrial structure plays only a minor role in productivity differences. If one province is more heavily specialized in industries recognized as having lower-than-average productivity and income while another is more specialized in high-productivity industries, it does not necessarily follow that this will cause a large difference in their productivity levels. In fact, with occasional exceptions, the importance of industrial structure tends to be swamped by regional differences in output per worker in any given industry. In 1970-73, *"output per worker accounted for more than 80 per cent of all variations in labour productivity between the provincial economies and the national average."* Thus, attempts to alter the industrial structure of a province so that it conforms to the national average would be of little use in improving productivity and per capita income. Low output per worker shows up not only in the sectorial and regional averages, but also in individual products. The production of carbonated beverages in Ontario is 56,000 gallons per worker per year, almost double the 29,000 produced in Nova Scotia.

Measures to narrow income disparities should therefore concentrate on reducing differences in the levels of output per worker. But to do so requires a knowledge of what factors determine output per worker. The Council identifies four, and makes use of them in formulating six of its 16 recommendations. The most noteworthy are the quality of labour and the level of technology.

Using an index representing the main determinants of the quality of labour, the Council is able to explain approximately 20 per cent of the interprovincial differences in output per worker. Its analysis shows that these differences largely reflect differences between provinces in the level of educational attainment. This is the case despite considerable efforts to improve the education system in the last decade. For example, workers in Quebec and the Atlantic provinces had an average of slightly less than ten years of education in 1970, compared with eleven in Alberta and British Columbia. Accordingly, the Council recommends that the provinces involved improve the educational attainment of new entrants to their labour forces and that measures be implemented to upgrade the education of adults already in the labour force (Recommendation No. 1).

The Council's analysis shows that while capital stock per worker -- that is, the plant and equipment available -- contributes to increased productivity, this factor alone cannot ensure high productivity. In Newfoundland, capital stock per worker in 1973 was close to $48,000, 40 per cent greater than in Ontario where it was $34,120 per worker. Yet, output per employee in Newfoundland was much lower. While the shortage of capital in relation to the national average hindered productivity in Manitoba and the eastern provinces, this occurred to a significant extent only in Quebec and Prince Edward Island. Because of the uncertain role of capital stock, particularly in the manufacturing sector, the Council states that *"one should not expect that more capital investment directed into manufacturing would automatically improve the productivity performance of the low-income provinces."*

Various other factors in addition to industrial structure, output per worker, quality of labour, and capital stock may influence industrial

productivity. Among these are technology, the effort devoted to research and development, the level of competence of management personnel, worker attitudes, the size of the city in which the firm is located, economies of scale and transportation costs. The Council concludes that, as a whole, these variables account for approximately one-third of the differences in output per worker, both for the economy as a whole and for the goods-producing sector. It is important to note that these factors play an even greater role in low-income provinces. *"In Newfoundland, Nova Scotia, and New Brunswick, they never account for less than 60 per cent of the difference from the national average."*

In the area of technology, it is known that firms which adopt new techniques significantly later than other firms in their industry are normally less successful. The Council presents some suggestive evidence that regions with low productivity also lag behind in adopting new production methods. Similarly, some provinces lag in the training of management. While almost one-third of the general managers in Canadian firms held a university diploma in 1970, this figure ranged from only 18 per cent in Newfoundland to 37 per cent in Alberta. Consequently, the Council has recommended measures to promote the use of new technology (Recommendation No. 2), to increase the number of management training courses (Recommendation No. 6), and to foster research by employer and employee associations in order to determine why productivity levels in their own industries vary between provinces (Recommendation No. 5).

The Council has observed that urban regions are generally richer than rural regions and that disparities tend to widen with the size of the cities. The value added per worker in Canadian manufacturing industry rises with urban size but at a decreasing rate. There is a gap of $200 in the value added per worker between a city of 25,000 inhabitants and one of

100,000 attributable to the size difference. However, a city of 500,000 would have to reach a population of about one and a half million in order to achieve the same increase. The Council concludes that the present process of urbanization appears to be desirable for increasing productivity in the manufacturing sector, but only until a population of one million inhabitants is reached. From this point of view, therefore, provinces where income is below the national average should consider the possibility of promoting rather than discouraging movements away from rural regions toward urban regions and from small urban centres to medium-size cities (Recommendation No. 3). In view of the drop in productivity that occurs in cities of over one and a half million, there would be more social benefits to encouraging the development of satellite cities of intermediate size around Montreal and Toronto (Recommendation No. 4) than in promoting further expansion of these cities.

The Council is well aware that these factors are not the only determinants of productivity and income gaps. Nevertheless, it chose to concentrate on them because they are among the most important and are susceptible to influence by government intervention. One such factor is lacking from this list, however; that is, transportation. It has been recognized for many years that federal policy on freight rates exerts an influence on the location of economic activities. While the Council has abstained from making formal recommendations in this field subject to more in-depth study of the matter, its preliminary analysis supports the claim by the four western Premiers that the present railway rate structure inhibits the expansion of manufacturing in the Prairies to the advantage of the manufacturing sectors in the central provinces.

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For further information, contact

Information Services
Economic Council of Canada
P.O. Box 527, Ottawa, ONtario, K1P 5V6
Tel: (613) 993-1894

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PR 77/09

NOT TO BE PUBLISHED BEFORE
11:00 a.m. (EST)
WEDNESDAY, APRIL 20, 1977

TOWARDS MORE PROVINCIAL INITIATIVE IN NARROWING UNEMPLOYMENT GAPS

OTTAWA -- In a report just published on regional development*, the Economic Council of Canada states that *"Unemployment in some areas of Canada continues to be a national disgrace. For more than thirty years, the federal government has committed itself to reaching and maintaining full employment,"* but that *"there are large regional disparities in access to jobs."*

The Council's investigation shows that an important cause of regional disparities in unemployment is that aggregate demand for goods and services is more deficient in some regions than in others. This is particularly the case during periods of recession, when 2 to 3 percentage points of unemployment in the Atlantic and Quebec regions are caused by insufficient demand. In British Columbia this figure is in the order of 1 to 2 points. There appears to be no convincing reason why provincial ministers of finance could not use fiscal policy to reduce unemployment

*Economic Council of Canada, *LIVING TOGETHER: A Study of Regional Disparities*. (Printing and Publishing, Supply and Services Canada, Ottawa, Catalogue No. EC22-54/1977; price: Canada, $5.50; other countries, $6.60; 251 pages.)

in the same way as the federal Minister of Finance. There is also a need for the federal government to regionalize its own stabilization policy. *"At times when it is necessary to reduce aggregate demand because of inflationary pressures or for other reasons, attempts could be made to reduce it less in the high-unemployment regions, notably the Atlantic region and Quebec. When demand is being deliberately stimulated because national unemployment is high, one could try to stimulate it more in the high-unemployment regions."*

The Council has found that none of the arguments against regionalized stabilization policy are convincing. The main objection has been that a provincial fiscal policy designed to stimulate the economy would benefit the industrialized regions more than the province itself because much of the additional income would be drained off to the outside. However, this view turns out to be inconsistent with the evidence. For example, an appropriate reduction of taxes in Quebec might cause an overall increase in income in Canada as a whole of $200 million. Of this increase, no less than $158 million, or 79 per cent, would remain in Quebec while $42 million would go to other regions. Consequently, the Council strongly favours regional use of fiscal policy in order to reduce high unemployment. Three of its recommendations pertaining to unemployment are aimed at the provincial governments (Recommendations Nos. 7 to 9).

To complement provincial fiscal policy initiatives, the Council also suggests that the federal government choose fiscal measures for its own stabilization policy in such a way as to increase the proportion of national demand going to regions with high unemployment, and describes certain new techniques that might be adopted to achieve this (Recommendation No. 10).

Relocation of federal activities and personnel to create jobs in regions with high unemployment is another type of regional stabilization policy, and it is currently being used to some extent. The Council recommends that, in addition to this, the federal government publish regular reports of the distribution of its expenditure and receipts by province and territory. This would give a better idea of the impact of its spending policies on the demand for labour within the country (Recommendation No. 12). It also suggests that the cost of relocating federal services be measured and compared to the direct subsidies that would be required to create the same number of jobs (Recommendation No. 11).

It has often been maintained that migration by workers from less favoured regions can eliminate unemployment disparities because those who move will either leave jobs available for others, or cease to be unemployed themselves. In the long term, according to this argument, migration eliminates unemployment as well as causing labour to become scarcer in the poorer regions, thereby raising wage rates. The Council is less optimistic, however, that migration can be a complete cure for unemployment disparities, although it does feel that it would help to reduce them. To this end, there is a need to facilitate the individual mobility of workers.

The Council observes that although excellent mobility programs already exist, they are little used. Therefore, it recommends that the federal government first review the conditions for assistance now offered to workers wishing to relocate and also experiment with subsidies to the private sector to stimulate initiatives by them in this area (Recommendation No. 13). The low utilization rate of current mobility programs leads the Council to suggest that an investigation be carried out to determine the extent to which those unemployed are aware of employment

possibilities outside their own province and of the availability of mobility assistance (Recommendation No. 14).

These recommendations to reduce unemployment should not be viewed as distinct from those to improve productivity. It is only for reasons of convenience and clarity that the Council has divided its recommendations into these two categories. In fact, in the Council's opinion, the two are interdependent and must be pursued jointly since success in increasing productivity may favourably affect employment, and the converse is also true. Nevertheless, the Council believes that as long as productivity gaps continue, it is important that wage levels reflect productivity differences so that demand for labour is not discouraged. Although a provincial government may decide, for valid humanitarian reasons, to maintain its minimum wage at a higher level in relation to productivity than that in other provinces, the Council stresses the risk that this may adversely affect employment. It concludes that the most pressing need is to lower the unemployment rate in those regions where it is high rather than to increase the minimum wage in these areas. With this in mind, it recommends that the ministers of labour in provinces with high unemployment should gradually bring the minimum wage in their provinces in line with that in other regions where the unemployment rate is below the average (Recommendation No. 15).

There is room for similar action at the federal level. The federal government currently pays the same wage throughout the country for a given category of workers, regardless of whether this wage is necessary to attract candidates in a particular region. Federal wages, like minimum wages, may sometimes serve as standards of comparison with other wages and, by increasing wage rates, can cause a drop in the demand

for labour. It would be preferable, in the Council's opinion, if the federal government showed more concern for employment by aligning its wages and salaries in each region with those in the private sector. For reasons similar to those given for minimum wages, the present policy may create unnecessary unemployment in regions where productivity is low (Recommendation No. 16).

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For further information, contact

Information Services
Economic Council of Canada
P.O. Box 527, Ottawa, Ontario, K1P 5V6
Tel: (613) 993-1894

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PR 77/10

NOT TO BE PUBLISHED BEFORE
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BRITISH COLUMBIA

OTTAWA -- British Columbia is an exception to the normal pattern of regional disparities in Canada in that it enjoys above average per capita income levels while at the same time experiencing serious unemployment. But the high per capita income figures may be a poor measure of how well off British Columbians actually are. The Council's report on regional development* finds that on a family income basis and after allowing for higher B.C. living costs, notably housing, purchasing power per family is lower than the national average, and indeed, lower than in Quebec!

However, the major problem in British Columbia continues to be high unemployment. From 1953 to 1975 its unemployment rate averaged 6 per cent, almost double the rate recorded in the Prairies and considerably above that of Ontario. There has been considerable

*Economic Council of Canada, *LIVING TOGETHER: A Study of Regional Disparities*. (Printing and Publishing, Supply and Services Canada, Ottawa, Catalogue No. EC22-54/1977; price: Canada, $5.50; other countries, $6.60; 251 pages.)

concern in British Columbia that despite its high unemployment it does not get a large share of federal spending to combat disparities such as that of the Department of Regional Economic Expansion (DREE). The Council notes, however, that DREE is relatively small, comprising only about one per cent of total federal spending.

In the Council's opinion, there is considerable leeway for provincial initiative in reducing unemployment. According to its research, relatively deficient demand in British Columbia is a partial but important cause of its unemployment problem. British Columbia itself could take action on this by applying its own fiscal policy. By reducing taxes, such a policy could increase the income available to purchase goods and services, thereby raising local demand for labour. The Council estimates that British Columbia would likely retain at least 70 per cent of the stimulus that its own fiscal policy would provide. The policy would be in large part self-financing from the extra tax revenues and savings generated by the fiscal stimulation itself. To the extent that borrowing would be required, the provincial debt is sufficiently low in relation to per capita income that this should not pose any significant problems.

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PR 77/11

NOT TO BE PUBLISHED BEFORE
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THE PRAIRIES

OTTAWA -- People from the Prairies have long contended that the existing freight rate structure works against their economic development in favour of Central Canada. They maintain that it perpetuates an unfavourable industrial structure, by making it less efficient for them to manufacture and process their own raw materials than for Central Canada to do so. On the basis of preliminary research in its report on regional development*, the Council supports this view, noting that *"on balance, we think that a more economically efficient rate structure would be conducive to an increased amount of manufacturing in the Prairies."* Accordingly, the Council indicates two kinds of changes in transport charges that might improve the situation.

The first concerns the substantially higher rates charged for goods moving from East to West as opposed to West to East. In 1973, it cost an average 0.8 cents per ton-mile to ship goods from the Prairies to Central Canada, compared to 2.8 cents per ton-mile for goods moving in the

*Economic Council of Canada, *LIVING TOGETHER: A Study of Regional Disparities*. (Printing and Publishing, Supply and Services Canada, Ottawa, Catalogue No. EC22-54/1977; price: Canada, $5.50; other countries, $6.60; 251 pages.)

reverse direction. It would make more economic sense to raise the rates for goods moving eastward and to lower them for goods moving westward, and it would also promote secondary manufacturing in the Prairies. Since raw materials are relatively bulky to transport, higher freight charges could make it more efficient for the Prairies to process some of these goods themselves, rather than shipping them East for processing.

The Council sees a second source of inefficiency in the significant difference in the rates charged for raw materials and manufactured goods being shipped in the same direction. Average charges per ton-mile to ship manufactures from the Prairies to Central Canada are approximately double those of moving raw materials. It seems unlikely that there is this great a difference in the actual costs of transporting these goods. The Council believes that if the freight rate structure reflected actual costs more accurately, there would be even more incentive to process raw materials in the Prairies rather than processing them elsewhere.

Although the Council has deferred formal recommendations on this subject pending further analysis, it believes that changes to promote secondary manufacturing in the Prairies would not only be beneficial from the Prairies' perspective but would also prove economically efficient from a national point of view. Moreover, the Council notes that current rates of outmigration from Saskatchewan and Manitoba indicate that there is a sufficient supply of labour to support this expansion.

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PR 77/**12**

NOT TO BE PUBLISHED BEFORE
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QUEBEC

OTTAWA -- Despite continuing government efforts, income per capita in Quebec continues to be below average and the high unemployment rate remains a serious problem. The Economic Council's report on regional development* shows that considerable progress can be made in both of these areas if appropriate policies are implemented. In the Council's opinion, there is much that can be done by Quebec itself and by the other provinces to alleviate regional disparities. In fact, it finds that provincial action would be more effective than federal measures in eliminating some of the major causes of these disparities.

The Council's analysis reveals that relatively deficient demand is a partial but significant cause of high regional unemployment. By implementing its own fiscal policy, Quebec could

*Economic Council of Canada, *LIVING TOGETHER: A Study of Regional Disparities*. (Printing and Publishing, Supply and Services Canada, Ottawa, Catalogue No. EC22-54/1977; price: Canada, $5.50; other countries, $6.60; 251 pages)

increase the income available to purchase goods and services, thereby stimulating demand for labour. The Council expects that such a policy would be largely self-supporting as a result of the additional tax revenues and savings created by the fiscal stimulus. Although some external borrowing would likely be necessary, this should not pose an insuperable problem. Relative to personal income Quebec's total external debt is very comparable with Ontario's. Therefore, the Council believes that the debt increases which might result from a more aggressive fiscal policy would be manageable.

Over the last two decades, income per capita in Quebec has gradually approached the national average. The Council notes that this trend is due largely to federal government transfers to Quebec rather than to any significant improvement in Quebec's relative productivity. People from Quebec have often maintained that it is Quebec's poor industrial structure which has been the major source of the productivity and income disparities between Quebec and Ontario. The Council's research calls this argument strongly into question; it finds that differences in industrial structure account for only a part of the disparities in productivity. The gap in output per worker between Quebec and Ontario is 11 per cent; 3 per cent of this can be attributed to less capital equipment, 4 per cent to management, technology and residual factors, and 4 per cent to the poorer educational attainment of the labour force. In 1970, the proportion of wage-earners who had not completed high school was higher than in any other province, even though the proportion of university graduates was

only slightly less than the Canadian average. It is therefore evident that at least part of the solution to Quebec's productivity and income disparities is in the hands of the Quebec government.

The Council observes, however, that calculations of income per capita tend to understate the well-being of people in Quebec. Quebec's families are relatively larger and, since some expenditures are made for the whole household, incomes go further. On a family basis and taking into account lower living costs in Quebec, particularly for housing, the purchasing power of families is actually higher in Quebec than in British Columbia.

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P.O. Box 527, Ottawa, Ontario, K1P 5V6
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PR 77/13

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THE ATLANTIC PROVINCES

OTTAWA -- The fact that the Atlantic provinces are by far the least urbanized region in Canada and have no large cities appears to contribute to their relatively low-income levels. In a report on regional disparities*, the Economic Council observes that urban concentrations are more conducive to manufacturing productivity, so that increased urbanization can strengthen economic activity and raise income levels. Although the distribution of economic resources in the Atlantic region limits the degree to which greater urbanization is possible, the Council recommends that in formulating urban strategies for the region, the provinces should consider the productivity advantages of having moderately large urban centres.

People from the Atlantic region have often contended that high transportation costs have exacerbated the region's unemployment and income problems by undermining its competitiveness. However,

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*Economic Council of Canada, *LIVING TOGETHER: A Study of Regional Disparities*. (Printing and Publishing, Supply and Services Canada, Ottawa, Catalogue No. EC22-54/1977; price: Canada, $5.50; other countries, $6.60; 251 pages.)

the Council's research does not support this argument. It finds that the existing subsidies on rail and truck rates are sufficient to ensure that the Atlantic provinces are not placed at an undue competitive disadvantage. Transport of most manufactured goods is subsidized at a rate of 50 per cent on shipments out of the Atlantic region, while almost all other goods receive a 30 per cent subsidy. Within the region, all transportation is subsidized at 15 per cent. Consequently, the Council believes that further transportation subsidies would not be appropriate.

Another area of considerable controversy has been the effectiveness of the Department of Regional Economic Expansion (DREE) in improving employment and earnings opportunities. The Council found that DREE's highly publicized program of grants to induce firms to relocate in high-unemployment areas is less successful than published estimates of jobs created imply. However, it noted that the subsidies nevertheless seem successful enough to be a paying proposition. By generating new jobs DREE has enhanced the production of goods and services, creating incomes in the region that would not have existed otherwise. The Council concludes that this social benefit outweighs any inefficiency to national output from locating firms in an economically less productive region.

The Council's research has shown that above-average unemployment reflects relatively deficient demand. However, national stabilization policy appears to have little impact on demand in the Atlantic region. Therefore, the Council recommends that provinces must take greater responsibility for implementing fiscal policies --- preferably through tax reductions --- to stimulate

demand for goods and services. It recognizes the risk of greater debt that this involves, but feels it would be acceptable if some form of federal help were made available, such as a partial debt guarantee or sharing of the increased federal revenues that higher Maritime activity would generate. It is also important, in the Council's view, that close co-ordination of the fiscal policy stance of individual provinces in the Maritime region be maintained on a continuing basis.

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Economic Council of Canada
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PR 77/18

FOR RELEASE
May 19, 1977

OTTAWA -- Even though government policy changes may improve economic conditions generally, they invariably cause certain groups of workers to face even higher unemployment. This is one of the major findings of The Impact of Economy-Wide Changes on the Labour Force: An Econometric Analysis,* a study released today under the auspices of the Economic Council of Canada. Although several studies have investigated the success of government policy changes by evaluating their impact on overall unemployment levels, little has been known about how these changes affect individual groups of workers within the labour force. For example, although fiscal stimulus -- such as an increase in government spending -- can lower total unemployment, the authors find that some workers will actually be worse off as a result of this measure.

To undertake this more detailed analysis of the labour market reaction to government policy changes, the authors modified CANDIDE 1.1, the Council's macro-econometric model, to obtain data on the behaviour of workers in different age and sex groups and employers. Using this

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*T. SIEDULE, N. SKOULAS and K. NEWTON, The Impact of Economy-Wide Changes on the Labour Force: An Econometric Analysis, Economic Council of Canada. (Printing and Publishing, Supply and Services Canada, Ottawa, Cat. No. EC22-50/1977; price: Canada, $3.00; other countries, $3.60; 94 pages.)

model, they examined the effect of the 1971 changes to the Unemployment Insurance (UI) Act. As well, for the sample period 1963-71, they simulated the impact on unemployment had government spending been increased. Finally, they projected how various economic conditions might affect the labour market from 1975 to 1982.

The analysis showed that men over 25 and women over 45 years not only benefitted from the fiscal stimulus but also enjoyed increased employment after the UI Act was revised. This latter, rather surprising outcome is attributed to the "demand effect" of the changes to the UI legislation. Higher UI benefits increased personal disposable income, causing consumption to be increased to meet the greater demand for goods and services.

By contrast, workers of both sexes aged 14-19 and women 20-24 and 25-44 experienced higher unemployment following the revised UI Act despite this demand effect. Similarly, males 14-19 and females 20-24 and 45-64 appeared to be worse off in terms of the number unemployed when government spending was increased. The authors observe that in both cases there was a net gain in unemployment for these groups because they were more sensitive to the policy changes. That is, the improved economic conditions encouraged more persons in these age-sex groups to enter the labour market than could actually find jobs. There had been some increase in employment but it was not sufficient to absorb the growth in participation rates.

Although labour force growth is likely to slow over the 1975-82 period, the authors anticipate that persons from these more volatile age-sex groups are likely to constitute an increasingly large proportion of

the work force. Since 1961, the number of men in the labour force has steadily declined relative to women. By 1982, it is estimated that they will comprise 63.7 per cent of all workers (compared to 73.3 per cent in 1961), as women aged 20-24 and 25-44 enter the labour market at a more rapid rate.

This study is not the first to point out that the single aggregate unemployment measure is not by itself an adequate measure of labour market conditions. In its report, People and Jobs, A Study of the Canadian Labour Market,* the Economic Council recommended that *"Statistics Canada, with the co-operation of other departments, develop, publish, and analyse additional information with respect to employment, unemployment, turnover, gross flows, and the wages and incomes of families and individuals."* With a more flexible labour force, it will become increasingly important to understand the differential impact of government stimuli to ensure that workers are gainfully employed rather than merely being transferred from the status of 'not in the labour force' to that of 'unemployed'.

*Economic Council of Canada, People and Jobs, A Study of the Canadian Labour Market. (Supply and Services Canada, Ottawa, EC22-43/1976, $6.00.)

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The authors are:

T. Siedule, Prices Group, Consumer and Corporate Affairs
N. Skoulas, Prices Group, Consumer and Corporate Affairs
K. Newton, economist with the Economic Council of Canada

N.B. This study reflects the views of the authors and not necessarily those of the Economic Council of Canada.

For more information, contact Janet Ritchie
Information Services (613) 993-1894

Economic Council of Canada

Conseil économique du Canada

news release/communiqué

PR 77/19

FOR RELEASE
June 6, 1977

OTTAWA -- The Economic Council has organized a two-day conference on industrial adaptation, to take place June 27-28, 1977 in Montreal at the Hôtel Meridien. The conference will be chaired by Judge Robert Cliche, Associate Chief Justice of the Provincial Court of Quebec, who headed the Cliche Commission in 1974. The conference will provide a forum where industry and government representatives can discuss the policies which are needed to assist Canadian manufacturing to adapt to changing domestic and international conditions.

The need for industry to adjust is not new. Canadian industries have had to adapt to a number of far-reaching technological, economic, and social changes over the past twenty-five years, although some have found the transition more difficult than others. More recently, however, a number of pressures have intensified and complicated the adjustment process: inflation and recession, energy shortages, increased concern over environmental problems, the larger role of government, and the changing attitudes of workers and consumers.

One of the most important problems now faced by some Canadian manufacturing industries is the rapidly increasing import

competition from developing countries who are able to supply goods at relatively low costs. This problem epitomizes the difficulty in reaching a solution satisfactory to Canadian industry, labour, consumers and to foreign suppliers. In response to demands from developing countries for a new International Economic Order many Canadians are advocating further liberalization of trade between Canada and developing countries even though this threatens some Canadian producers.

In the Council's view, it is imperative that some kind of rapprochement be achieved among the affected interests. It is hoped that this conference will be a means of increasing the awareness and appreciation of the different perspectives and needs of all concerned. The Council hopes that the conference discussion will provide a basis for recommendations concerning adaptation policy in its forthcoming report on Canada's relations with developing countries.

To facilitate this outcome, the Council has chosen an unusual format for the conference. It will be entirely participatory. There will be no prepared presentation except for a dinner speaker, Mr. Gordon Osbaldeston, Deputy Minister of the Department of Industry, Trade and Commerce, Ottawa. Because of the focus of the conference, most of the 50 invited participants will be senior management and labour representatives immediately concerned with the problem of adaptation. As well, representatives from the federal and provincial governments will be attending.

Although the conference itself will not be open to the press and public, there will be a press conference immediately

afterwards at 12:30 p.m., June 28, at the Hôtel Meridien in Montreal. George Post, Acting Chairman of the Economic Council, and Judge Cliche will be prepared at this time to give a summary of the proceedings and to answer any questions.

A number of background papers designed to stimulate discussion of the problems of adaptation will be provided in advance to participants. The Council intends to publish these, along with the conference proceedings, as soon as possible.

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For further information, please contact

Janet Ritchie
Information Services
Economic Council of Canada
P.O. Box 527
Ottawa, Ontario K1P 5V6
Tel.: (613) 993-1894

Economic Council of Canada

Conseil économique du Canada

news release/communiqué

PR 77/20

FOR RELEASE
TUESDAY, JUNE 14, 1977

OTTAWA -- Over the last decade, deposit institutions have become leading innovators in Canada, dispelling their earlier reputation as a sector slow to respond to changing public needs. The chartered banks, in particular, have considerably enlarged their range of services. As a result, consumers have benefitted from a more efficient and integrated financial system. Plans are now underway to improve this system still further, with the adoption of an electronic payments system. In Deposit-Taking Institutions: Innovation and the Process of Change,* a study released today under the auspices of the Economic Council, H. H. Binhammer and Jane Williams examine why this transformation has occurred and assess its implications.

They find that the mid-1960s marked the turning point. Although, in the past, deposit institutions had tended to be business oriented, they now began to direct more of their services towards household needs. In part, this was because households could no longer be regarded as a captive market, from which

*H. H. BINHAMMER and JANE WILLIAMS, Deposit-Taking Institutions: Innovation and the Process of Change, Economic Council of Canada. (Printing and Publishing, Supply and Services Canada, Ottawa, Cat. No. EC22-51/1977; price: Canada, $4.50; other countries, $5.40; 146 pages.)

they could expect a steady flow of deposit funds. As households started to enjoy more rapid increases in personal incomes and hence in savings, they were no longer content to simply deposit their funds for safekeeping. Rather, they recognized their savings as an asset in need of management.

Other financial institutions were able to meet the new needs of households by offering investment opportunities such as pension funds and registered retirement savings plans. This competition spurred deposit institutions to provide a wider variety of services in order to attract and retain household customers. They also expanded their credit facilities in response to a growing demand for consumer credit and residential mortgage loans. Following the 1967 revision to the Bank Act, banks soon became dominant in both these fields, partly through the introduction of bank credit cards.

This trend to more innovation also reflected the fact that the rate of growth of services traditionally provided to commercial customers has been slowing. Larger businesses have been moving to meet their financial needs in the newly-created money market. To some extent, other institutions including affiliates of foreign banks have been able to enter the Canadian market by establishing affiliate companies to offer such services as corporate loans and financial leasing.

Innovations have also occurred as deposit institutions have attempted to control the rising costs incurred by their move from labour-intensive operations to a greater use of computer technology. Although fixed costs have increased sharply, total costs are now less sensitive to volume. Consequently, the services introduced have tended to be those which involve large volume and hence reduce per unit costs of operation.

These innovations have been accompanied by significant changes in the internal structure and management of deposit institutions. Marketing departments have been created to research public needs and to develop new ways of meeting them. As well, banks have begun to regionalize their services to meet specific needs in different areas. However, perhaps the most far-reaching changes will occur as a result of the transition to an electronic payments system.

A number of problems as to how this transition can be effected remain unresolved. Among other things, the method of allocating costs among participants is still undecided. As well, there are important concerns for consumers. For example, many fear that the new payments system will lead to increased invasion of privacy as more and more information about individuals becomes readily available in computer files. If these difficulties can be solved, consumers will benefit from an even more efficient financial system as deposit institutions become more competitive.

H. H. Binhammer is Professor of Economics and Head of the Department of Political and Economic Science at the Royal Military College of Canada. Jane Williams is an Account Executive with Merrill Lynch Royal Securities Limited, Ottawa.

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N.B. This study reflects the views of the authors and not necessarily those of the Economic Council of Canada.

For more information, contact Janet Ritchie

Information Services (613) 993-1894

Economic Council of Canada
Conseil économique du Canada

news release/communiqué

PR 77/21

FOR RELEASE
TUESDAY, JULY 12, 1977

OTTAWA -- In formulating short-term economic policies, governments have been ill-advised to assume that there is a simple trade-off between unemployment and inflation. The trade-off theory holds that a stimulus to economic activity to create more jobs will accelerate the rate of inflation; similarly, that price stability entails a cost in terms of unemployment. However, this notion has come under increasing attack in recent years, particularly as both the number of jobless and prices and wages have been rising rapidly. In The Determination of Wage-Change Relationships, a study released today under the auspices of the Economic Council of Canada, J.C.R. Rowley and D.A. Wilton* demonstrate that many of the misgivings about the trade-off theory are soundly based.

Contrary to much of the previous research which has accepted the validity of this trade-off, their study finds that there is no evidence to support the presumption that rates of wage increases can be dampened by allowing unemployment levels to rise. After examining all of the major Canadian studies of wage-determination prepared in the last

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*J.C.R. ROWLEY and D.A. WILTON, The Determination of Wage-Change Relationships, Economic Council of Canada. (Printing and Publishing, Supply and Services Canada, Ottawa, Cat. No. EC22-53/1977; price: Canada, $4.00; other countries, $4.80; 181 pages.)

decade, as well as the principal American and British work on this subject, the authors conclude that these analyses share significant flaws which render their findings untenable and seriously misleading.

While many of their criticisms deal with the technical aspects of the models used, they also find important shortcomings arising because these studies did not take into account certain well-known features of the labour market. In the authors' opinion, the role of unemployment in wage-determination has, as a result, been substantially distorted.

Specifically, the authors demonstrate the widespread use of long-term wage contracts in Canada's manufacturing sector, and note that despite its prominence earlier research has ignored the impact of this characteristic of the labour market. Instead, it has assumed that wage rates are negotiated annually by participating bargaining groups. However, both unions and employers in Canadian manufacturing industries usually prefer to lock in pay increments over a period of years, frequently including high initial wage hikes. Because previous studies have overlooked the effect of these multi-year contracts and the incidence of front-end loading, they have provided an inadequate explanation of wage changes in Canada.

Accordingly, the authors conclude that the conventional research must be substantially amended not only in terms of the way the data are used but by offering a more comprehensive analysis of the factors which influence wage-determination. As an initial step in this process they present new estimates to include the impact of long-term wage contracts, using data on 1600 wage contracts negotiated in the Canadian manufacturing

sector f· 1955 to 1968. In their opinion, only after the simple trade-off model is rejected can economists overcome the present unsatisfactory state of knowledge and develop a more realistic understanding of the link between the rate of wage inflation and the level of unemployment.

The authors are:

J.C.R. Rowley, Professor of Economics at McGill University

D.A. Wilton, Professor of Economics at the University of Guelph

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For more information, please contact Janet Ritchie

Information Services (613) 993-1894

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PR 77/22

DO NOT PUBLISH BEFORE
11:30 A.M. (EST)
TUESDAY, NOVEMBER 8, 1977

FOURTEENTH ANNUAL REVIEW: INTO THE 1980s

OTTAWA -- The Economic Council of Canada's *Fourteenth Annual Review** analyzes the unsatisfactory performance of the Canadian economy and finds that it reflects a number of deep-rooted structural weaknesses. The *Review*, entitled *Into the 1980s*, focuses on the difficulties and compromises inherent in attempting to achieve major economic goals simultaneously: a high rate of growth; reasonable price stability; full employment; a viable balance of payments; and an equitable regional distribution of rising national income.

In Chapter 1, the Council studies the Canadian economy in 1976 and 1977. It finds that Canada's economic performance has been sluggish and its recovery has lagged behind that of other Western countries.

The Council evaluates the anti-inflation program in Chapter 2. It maintains that controls are most effective when they are used as a "shock" measure to restrain inflationary pressures and expectations.

**Fourteenth Annual Review: Into the 1980s*, Economic Council of Canada. (Printing and Publishing, Supply and Services Canada, Ottawa, Cat. No. EC21-1/1977; price: Canada $2.00, other countries $2.40; 96 pages.)

Chapter 3 contains an analysis of trade relations. The Council demonstrates Canada's weakening competitive position in international markets, attributing this to excessive growth in manufacturing unit costs as well as to the lack of energetic entrepreneurial initiative and insufficient modernization of the industrial structure.

The problem of weak investment and Canadians' inability to generate sufficient savings to ensure strong economic growth is studied in Chapter 4. The Council stresses that Canadians must continue to save more over the long term to avoid becoming even more dependent on foreign borrowing.

Canada's unfavourable economic situation and structural problems greatly limit the options available over the next five years. In Chapter 5, the Council uses its *CANDIDE* econometric model to simulate a projection of the economy to 1982, assuming no radical changes. This is the "reference scenario." A series of supplementary simulations were then carried out assuming the implementation of various monetary and fiscal policies.

Finally, in the sixth and last chapter, the Council presents four recommendations for monetary policy, federal and provincial fiscal policy, and for consultative mechanisms.

Three documents have been prepared to give you a quick preview of the general contents of the *Fourteenth Review*:

1. Balancing Objectives
2. Into the 1980s: Policy Options
3. Lacklustre Performance

These documents give only a general outline of the *Fourteenth Review*; page numbers are given in parentheses for reference to the *Review* itself.

Into the 1980s can be ordered by mail at $2.00 per copy from: Printing and Publishing, Supply and Services Canada, Ottawa, K1A 0S9. For additional information, contact Pierre Bergeron, Economic Council of Canada, Ottawa, K1P 5V6, (613) 993-1894.

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PR 77/23

DO NOT PUBLISH BEFORE
11:30 A.M. (EST)
TUESDAY, NOVEMBER 8, 1977

BALANCING OBJECTIVES

OTTAWA -- The Economic Council of Canada today recommended in its *Fourteenth Annual Review** fiscal measures that would return more than $2 billion to Canadian taxpayers over the next two years.

Faced with the twin problems of a hesitant economic recovery and the long-term need to confront fundamental structural weaknesses, the Council calls for action by the federal and provincial governments to restore confidence in the economy. It advocates that the federal and provincial governments implement permanent cuts in personal income tax equal to between 8 and 10 per cent of the total revenue over and above indexation. Furthermore, it proposes that the provinces reduce their sales tax by one percentage point.

In making these proposals, the *Fourteenth Review* looks beyond the temporary stimulative measures announced in October by the Minister of Finance because, in the Council's view, without major additional

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**Fourteenth Annual Review: Into the 1980s*, Economic Council of Canada. (Printing and Publishing, Supply and Services Canada, Ottawa, Cat. No. EC21-1/1977; price: Canada $2.00, other countries $2.40; 96 pages.)

interventions *"the outlook for the next five years is for relatively modest growth, persistent inflation, high unemployment, and very large current account deficits."* (83)

The *Review*, entitled *Into the 1980s*, suggests that the measures required to promote an early recovery will not themselves encourage more enduring strength in the economy. Nevertheless, the Council sees little immediate alternative to using conventional fiscal stimulation measures to increase demand and encourage more consumer and business spending. The Council urges that this be achieved through increased private rather than government activity. But too vigorous action could exacerbate the already precarious budgetary position of the federal and some provincial governments. As well, it could result in higher inflation and delay improvement in Canada's international competitiveness.

The Council cites a number of fundamental structural problems which, by contributing to high costs, inflation, and unemployment, are hampering economic performance and undermining the international competitiveness of many of Canada's traditional exports. These longer term structural issues are not likely to be tackled until the more immediate cyclical problems are resolved and the economy is stronger.

This explains the mix of policies favoured by the Council. *"In general, we propose that governments should move rather carefully to maintain adequate growth in aggregate demand, while moving more vigorously to encourage needed structural change through incentives and improved mechanisms for consultation on basic economic issues."* (77)

The *Fourteenth Review* emphasizes five structural problems that must be solved to ensure stable economic growth and avoid the unacceptable *"waste of persistently underutilized labour and capital resources"* (77):

• Improved Competitiveness in Foreign Markets. Manufacturing unit costs are increasing faster in Canada than in the United States and the average hourly wage in Canadian manufacturing is one of the highest in the world. At the same time, Canadians continue to prefer imported manufactured goods and vacations abroad, causing further strain on the balance of payments.

• Industrial Adaptation. The weak competitiveness of some Canadian industries requires an increasing effort by the federal and provincial governments to work together with industry to achieve more balanced and co-ordinated industrial strategies. This will involve both greater specialization within industries and a gradual shift of resources away from industries with poor long-term prospects. The Council considers that this harmonization of policies is particularly essential in the areas of investment incentives, regional development and manpower policies.

• The Balance of Payments and Foreign Borrowing. The Council is concerned that *"There are now ... indications that Canada is no longer perceived to be the favourable destination for foreign equity capital that it once was."* (80) There has been a decline in capital inflows from foreign sources and an increasingly large reliance on debt borrowing. To encourage foreign investors to put their capital into Canadian enterprises, the Council suggests that government should encourage the Canadian tourist industry and export-oriented or import-competing firms. Moreover, the Council's projections indicate that

without an *"extraordinary change ... in the patterns of savings and expenditures of Canadians and in this country's international competitiveness,"* it will be necessary to rely heavily on foreign loans to offset large deficits in the balance of payments. (81)

• Unemployment. Even with the measures announced in October by the federal Minister of Finance, the unemployment rate will probably remain above the 8 per cent level until the 1980s. The Council's figures which show that *"unemployment is ... concentrated disproportionately among the young."* (81) The *Fourteenth Review* maintains that jobs must come from the private sector and will have to be linked closely to consumer needs and preferences. This does not alter the fact that the problem of unemployment in Canada *"is rendered more difficult by the uneven pace of regional economic growth and the persistence of chronically high unemployment and underemployment in many areas of the Atlantic provinces and Quebec and in the rural and northern regions."* (81)

• Energy Conservation. *"Canadians ... have become one of the most wasteful energy-using nations in the world."* (83) The Council believes that, to promote energy conservation, it is essential to bring Canadian oil and gas prices to parity with world prices.

RECOMMENDATIONS: THE LESSER EVILS

The Council basically agrees with the monetary policy followed by the Bank of Canada and it recommends that *"the Bank of Canada maintain its present policy of limiting the growth of the money supply and that, as inflation rates fall, the Bank continue to shift the target rate downward."* (85) (Recommendation No. 1)

The reference scenario for Canada's economic performance over the next five years (which incorporates the measures recently announced by the federal government) shows that the growth in gross national product will barely be sufficient to prevent unemployment from climbing higher. Furthermore, the tax relief contained in the March 1977 federal budget and reiterated by the present Minister of Finance will not stimulate renewed investment without a stronger economy. For this reason, the Council advocates additional fiscal policies to improve economic activity.

The *Fourteenth Review* rejected the idea of stimulating demand by adopting an expansionary monetary policy because this would lead to higher inflation and cause a new depreciation in the Canadian dollar. Nor would an increase in government spending be satisfactory because of the public's general disenchantment with increasing public expenditures. Hence, the Council opted for a reduction on personal income tax and provincial sales tax.

The Council believes that a permanent reduction in personal income tax should be implemented over the next two years. These tax cuts could increase the growth rate of the GNP by 1 percentage point and lower the unemployment rate to 7.7 per cent. There would be a slight rise in the rate of inflation and an increase in pressures on the balance of payments. When fully implemented, this recommendation would permanently increase the buying power of taxpayers by approximately $200 a year. (87) (Recommendation No. 2)

Following this, the Council states that a reduction of provincial sales tax would effectively decrease prices, stimulate consumption, and reduce the tax burden of low-income households. The Council's recommendation lowers sales taxes by about 1 percentage point on goods and services other than gasoline, liquor and cigarettes. Over the next two years, the combined loss in provincial revenues would reach approximately $1 billion. (88) (Recommendation No. 3)

Finally, the solution to the complex problems with which the Canadian economy is faced in the short and longer terms will require increased consultation between the main agents in the Canadian economy. Consequently, the Council's last recommendation emphasizes the need for broader participation by affected interest groups in formulating policies to resolve the long-term structural problems in the Canadian economy. (91) (Recommendation No. 4)

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DO NOT PUBLISH BEFORE
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INTO THE 1980s: POLICY OPTIONS

OTTAWA -- The Economic Council of Canada is not very optimistic about the outlook for the Canadian economy in its analysis of various options for economic policy to 1982.* The Council concludes, *"it appears that -- if our extrapolations and assumptions are correct -- there is little hope of achieving simultaneously a low unemployment rate, a low inflation rate, and sound equilibrium of the current account balance over the next five years."* (75)

Canada's economic performance is very sensitive to fluctuations in international economic activity and the external outlook is not very encouraging. Inflationary pressures and unemployment will remain major preoccupations for everyone, making it necessary to avoid excessively stimulating demand. (66)

In the absence of any unforeseen developments or policy changes in the medium term and taking into account the poor prospects

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for strong economic recovery abroad, the Council developed a reference scenario for the 1977-82 period based on four assumptions:

- more people will enter the labour market, compensating for a slower growth in the labour force. The net immigration rate will remain at 100,000 persons a year;

- personal income tax rates will remain unchanged and wage and price controls are gradually phased out;

- the Bank of Canada will allow the money supply to expand at a rate consistent with the growth in nominal GNP;

- the Canadian dollar will continue to float at its average 1977 level. (67-68)

Based on these assumptions about the Canadian economy, the reference scenario reveals that after a modest recovery sustained primarily by exports in 1978 and 1979, growth in the GNP should gradually slow to approximately 4 per cent in 1982. Moreover, because of the moderate growth in real expenditures expected over the next five years, employment is unlikely to increase more rapidly than the labour force. Consequently, the unemployment rate will probably remain above 8 per cent during this period.

Nor does the Council's reference scenario indicate a respite in the growth of the consumer price index. Inflation will likely remain at about 6 per cent until 1982. This price rigiditv reflects the anticipated high inflation rates in other industrialized countries and continued pressures on domestic prices even after controls are lifted.

Because of this uneasy economic situation, Canada's foreign debt will continue to grow and the current account of the balance of payments will probably show an annual average deficit of about $6 billion in current dollars from 1977 to 1982.

According to the Council, *"The reference scenario suggests that, without major new policy initiatives, the outlook does not appear to be too promising."* (69) To find ways of achieving a better balance among objectives and bringing about more vigorous growth to reduce unemployment, the Council has analyzed six additional scenarios. Two of these are based on a change in monetary policy, three introduce new budgetary measures, and one combines both types of measures.*

Four scenarios incorporate a general reduction in personal income tax rates of 8.3 per cent, including a 25 per cent reduction for the lowest taxable income bracket.

A. Income Tax Cuts with Higher Government Spending

First, the Council combined this tax reduction, which represents about $2 billion in 1978 and 1979, with an average annual increase in government spending of 5.2 per cent in real terms from 1978 to 1982. The slowdown in government expenditures resulting from the 1976-77 restraint is assumed to continue next year; however, expenditures were assumed to return to their previous levels in 1979. This expansionary scenario would create a strong growth in demand and a sharp drop in unemployment. However, inflation would rise to an annual average rate of 7.3 per cent over the next five years and the balance-of-payments deficit would worsen. (71-73)

*The table on the last page of this press release lists the effects of the following scenarios on various economic indicators in 1978 and in 1982.

B. Income Tax Cuts Only

Another scenario used tax cuts alone. Economic recovery would occur mainly as the result of increased expenditures by the private sector. The result would be higher consumption and investment and a fall in unemployment. Greater private spending would also stimulate imports, leading to further deterioration in the current account deficit and higher inflation. (73)

C. Income Tax Cuts with Sales Tax Reductions

The Council assumed that the reduction of income taxes was accompanied by a decrease in provincial sales tax of 1 percentage point for items taxed at 5 per cent or more. This scenario, which limits the inflationary impact of income tax cuts, is characterized by a smaller increase in consumer prices because of the decrease in sales tax. However, it would cause a major deficit in the balance of payments as well as considerable provincial and business reliance on long-term foreign capital inflows to compensate for growing deficits. (73-74)

D. Income Tax Cuts with Tighter Monetary Policy

A mixture of stimulative budgetary measures and monetary restrictions could raise problems, according to the Council. The balance-of-payments deficit would continue to grow and unemployment would average 8 per cent during the simulation period, 1977-82. Furthermore, by exerting upward pressure on interest rates, this strategy would adversely affect business investment and residential construction. (74-75)

In addition, the Council investigates two scenarios which make use only of monetary policies.

E. Tighter Monetary Policy

The first, more restrictive scenario is aimed at lowering inflation by limiting the annual growth of the money supply to an average rate of 8.3 per cent over the 1977-82 period. This would lead to higher interest rates and larger inflows of foreign capital, causing upward pressures on the exchange rate. Consumers would benefit from slower increases in the price of imports but workers would lose because rising interest rates would restrict the investment growth necessary to create employment. (69-71)

F. Expansionary Monetary Policy

In the final scenario, the Bank of Canada would allow the money supply to grow at an average annual rate of 13 per cent to stimulate the economy. This would improve private investment, consumer expenditures, and the unemployment rate. As the Council points out, however, *"these relative gains would tend to be offset by stronger inflationary pressures and further depreciation of the Canadian dollar."* (75)

No Final Solution

The Council concludes that none of these options can resolve all of the ills afflicting the Canadian economy. At best, they may minimize the adverse effects of inflation, unemployment, and the poor competitive performance of the Canadian economy internationally. The inflation/unemployment dilemma will persist as long as the structural problems remain.

The Council believes, however, that the expansionary policies which it advocates in its recommendations would improve economic activity in some areas in the medium term. New initiatives are required to combat the deep-rooted structural problems in other fields since these cannot be solved solely by economic measures. But it will be easier to make these structural adjustments once the economy has regained its strength. It is for this reason that the Council recommends expansionary fiscal measures.

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EFFECT OF EACH SCENARIO ON VARIOUS INDICATORS IN 1978 AND 1982

		A	B	C	D	E	F
Scenario / Indicator	Reference solution	Income tax cuts with higher government spending	Income tax cuts alone	Income tax cuts with sales tax reductions	Income tax cuts with tighter monetary policy	Tight monetary policy	Expansionary monetary policy
Gross National Expenditure (Per cent increase)							
1978	5.1	6.3	5.9	6.1	5.9	5.1	5.3
1982	4.2	4.4	4.3	4.3	3.9	3.8	4.7
Unemployment Rate (As a percent of labour force)							
1978	8.0	7.5	7.7	7.7	7.8	8.2	7.9
1982	8.1	6.6	7.2	7.1	7.9	8.7	7.2
Consumer Price Index (Per cent increase)							
1978	7.4	7.6	7.6	7.3	6.8	6.7	8.1
1982	6.3	6.8	6.6	6.7	6.4	6.2	6.7

SOURCE Data from Statistics Canada and estimates by the Economic Council of Canada.

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DO NOT PUBLISH BEFORE
11:30 A.M. (EST)
TUESDAY, NOVEMBER 8, 1977

LACKLUSTRE PERFORMANCE

OTTAWA -- In its *Fourteenth Annual Review*,* the Economic Council of Canada observes that now that controls are on the verge of being phased out, federal economic strategies over the next five years will be occupied much more with foreign trade problems. In its *Review*, entitled *Into the 1980s*, it points out that *"Canada's international trade prospects are considerably less favourable today than ... a decade ago or at any other similar stages in previous economic cycles."* (29)

The Council finds that Canada's recent economic performance has been lacklustre because of weak private investment, fiscal restraint by government, moderate growth in exports, and little improvement in consumer spending. These factors have resulted in Canada's weak competitive position in international markets.

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Suffice to mention that, since the beginning of the 1970s, the balance of payments has moved from an annual balance of between ± $1.2 billion in the late 1960s and early 1970s to an annual average deficit exceeding $4 billion in the last three years. In particular, the Council notes the continuing deterioration of the travel account, which is expected to record a deficit of about $2 billion in 1977.

Analyzing the effect of shifts in the exchange rate, the Council notes that *"it is not at all clear that sales volumes will be measurably enhanced by the depreciation of the dollar"* since Canada is often forced to accept prices offered for many of its main exports, particularly wheat and newsprint. (36) Rather, the Council believes that more fundamental initiatives are required to improve Canada's competitiveness abroad. There must be greater control over costs, wage restraint, plant modernization and more vigorous promotion of export sales and domestic tourism.

THE SPECTRE OF PROTECTIONISM

The Council's *Fourteenth Review* also devotes special attention to the dangers of a return to protectionism. It observes that Canada has been one of several countries that have resorted to tariff or non-tariff barriers to protect employment, particularly in the textiles and clothing industries.

There would be serious domestic repercussions from either a move towards freer trade or a return to increased protectionism. Unfortunately, *"The element that appears to be lacking is a clear plan to foster the adaptation of Canadian industry to the trade concessions to which Canada would agree."* (41) The outlook for firms,

communities, and labour groups which would face increased competition as a result of reduced tariff barriers appears to be very gloomy. But it should not be forgotten that any increase in protectionism could adversely affect more competitive domestic industries that are largely oriented to export markets.

Given the high level of unemployment, it is clear that the implementation of a successful adaptation program will depend on a number of factors. The Council notes that it will require *"a return to a better economic performance for the Canadian economy as a whole; expanding opportunities for employment in viable industries and occupations; industrial incentive and alternative job-creation programs.... and adequate provisions for upgrading labour skills, job retraining, and labour mobility facilities."* (43-44)

SAVE MORE OR BORROW

Over the long term, Canadians must save at considerably higher rates than their American neighbours in order to support the higher capital formation required by Canada's industrial structure. Many firms and some entire industries must be modernized if they are to continue to be competitive internationally. Moreover, recent developments in the field of energy and its conservation, together with a sustained world demand for raw materials, will require increased levels of investment.

On the other hand, persistent excess capacity in the economy, slow consumer spending, and high capital costs relative to profits will work against renewed business expenditure and

investment in Canada during the short term. But this will not change the investment needs over the long term within the Canadian economy.

CONTROLS: SHOCK TREATMENT

Even though the climate for investment in Canada has suffered because of the anti-inflation program, the Council concludes that it has succeeded as a "shock" measure in curbing inflationary pressures and expectations.

The *Fourteenth Review* acknowledges that, over the two years they have been in effect, controls have had a more direct and visible impact on wages than on either prices or business profits. This reflects the fact that increases in wages and unit costs were already stronger than the rise in productivity by the time the program was introduced. Furthermore, profits grew moderately because of slow business conditions and idle capacity rather than as a result of constraints imposed by the Anti-Inflation Board.

The Council sees little evidence, however, that controls have distorted the wage structure. On the contrary, it views these measures *"as having helped to prevent certain groups that exercise market power -- often in the public sector -- from successfully pressing exorbitant demands, which burden consumers with either higher prices or taxes."* (19)

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*RECOMMENDATIONS**

Recommendation No. 1

We recommend that the Bank of Canada maintain its present policy of limiting the growth of the money supply and that, as inflation rates fall, the Bank continue to shift the target rate downward.

Recommendation No. 2

We recommend that, over the next two fiscal years, the federal and provincial governments implement permanent personal income tax cuts that would increase the annual disposable incomes of consumers by a total of $2 billion in addition to reductions resulting from indexation.

Recommendation No. 3

We recommend that provinces reduce their sales taxes by at least 1 percentage point on taxable consumer goods and services other than such items as gasoline, alcohol, and cigarettes.

Recommendation No. 4

We recommend that the federal government, together with representative organizations, establish appropriate advisory and consultative mechanisms (with adequate staff resources) to examine serious long-term structural issues.

**Fourteenth Annual Review: Into the 1980s*, Economic Council of Canada. (Printing and Publishing, Supply and Services Canada, Ottawa, Cat. No. EC21-1/1977; price: Canada $2.00, other countries $2.40; 96 pages.)

Economic Council of Canada / Conseil économique du Canada

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FOR RELEASE
TUESDAY, DECEMBER 20, 1977

OTTAWA -- The centralization of labour relations in the Quebec construction industry may have created a situation approaching permanent conflict. This is one of the conclusions of Professor Gérard Hébert in the first volume of a study on labour relations in the Quebec construction industry,* released today under the auspices of the Economic Council of Canada.

The centralization of the construction industry has greatly improved working conditions throughout the province. But Mr. Hébert believes that the uniformity and regulation that characterize the decree system carry several disadvantages.

According to Mr. Hébert, the pressures for increased centralization are accompanied by increasingly frequent and far-reaching government intervention. Since province-wide bargaining was introduced in 1970 no round of talks has ended in the normal signature of the collective agreement by the parties, except perhaps in 1976.

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*GÉRARD HÉBERT, Labour Relations in the Quebec Construction Industry, Part I -- The System of Labour Relations, Economic Council of Canada. (Printing and Publishing, Supply and Services Canada, Ottawa, Cat. No. EC22-52/1977-1; price: Canada, \$5.00; other countries, \$6.00; 196 pages.)

INSTABILITY

Any modification of the criteria for union representation in the construction industry runs the risk of worsening the instability that already exists. A comparison of the various methods for auditing union membership under Bills 290 (1968), 9 (1970), and 47 (1975) shows that The Building and Construction Trades Council of the Province of Quebec (QFL -- Construction) represents the greatest number of construction workers. The author stresses the fact that the most important group after the QFL comprises those who listed no union affiliation -- not, as might have been expected, the members of the Confederation of National Trade Unions (CNTU). Mr. Hébert notes that the QFL has taken considerable advantage of its majority position and this has made certain of its internal divisions more evident.

The survival of traditional employers associations is threatened by the requirement in Bill 47 that employers join the Association of Building Contractors of Quebec.

FREEDOM OF ASSOCIATION

Mr. Hébert doubts that the Cliche Commission actually succeeded in reforming practices and attitudes with regard to the exercise of freedom of association. He acknowledges that the mere presence of the Commission has helped to improve the system of freedom of association on construction sites. The new method of deciding union membership by secret ballot is, according to him, a considerable improvement that will prevent intimidation during the signing of membership cards. But this does not mean that the problem has been completely solved. Although the voting is secret, one's union affiliation is not.

The Office de la construction du Québec must provide each worker with a card identifying his choice of representative association, and this card must be presented in order to obtain employment.

Mr. Hébert believes that the principle of majority representation constitutes a further subtle restriction of freedom of union membership. The powers given to the union representing over 50 per cent of all workers effectively gives its members alone the right to express their opinion. By joining another union a worker may therefore lose all chance of influencing, by his vote, negotiations, the exercise of the right to strike and the conditions of returning to work.

The author notes that union hiring halls also hinder freedom of association. The union with the best-organized hiring halls has the best chance of attracting employers and employees. "Thus the question might be raised whether freedom of association is compatible in practice with the existence of union hiring halls."

<u>BARGAINING UNITS</u>

The overwhelming importance given to industry-wide bargaining has forced the government to take a close interest in labour relations, to the point where government intervention has become the rule. It is questionable whether Bill 290, "in attempting to impose industry-wide bargaining, has not to some extent made it impossible." Bringing the entire industry to a single bargaining table probably reduces the number of disputes but they become more serious to the point where government must intervene frequently.

The author compared statistics on work stoppages for Quebec and Ontario to determine whether an industry-wide strike is more harmful to workers and the industry than several small work stoppages. He observed that from 1935 to 1960 there were far fewer strikes in Quebec than in Ontario, resulting in less time lost for Quebec workers. However, the 1960s saw an increase in the number of working days lost in Quebec compared with Ontario. And, since 1970, the situation has been completely reversed. The number of working days lost in Quebec now exceeds that in Ontario. The author notes that since Bill 290 was implemented in 1970, "it has resulted in more stoppages of an infinitely more serious nature than during the 35 years of the preceding system."

WAGES

With regard to wages, Mr. Hébert believes that workers in the lowest paid categories have gained the most from multi-trade bargaining in the Quebec construction industry. Juridical extension of working conditions and industry-wide bargaining have proved unfavourable to certain highly specialized or organized trades who could obtain more through regular free bargaining. Because the lowest paid groups, particularly labourers, have enjoyed the same increases in cents an hour as those in the more specialized trades they have been able to improve their relative position.

This study was originally prepared as background research for an Economic Council report, Toward More Stable Growth in Construction,* which was published in 1974. It was subsequently extended to include recent developments in the construction industry in Quebec, particularly the work of the Cliche Commission.

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*Economic Council of Canada, Toward More Stable Growth in Construction, Ottawa, Information Canada, 1974.

The second volume of this study, to be published at a later date, will contain a statistical description of the construction worker in terms of income as well as an analysis of recent attempts to implement an employment security scheme.

Mr. Hébert is a professor at the School of Industrial Relations at the University of Montreal and is chairman of the study group on revisions to the Construction Industry Labour Relations Act in Quebec.

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For further information, please contact:

Pierre Bergeron
Information Section (613) 993-1894

LABOUR RELATIONS IN THE QUEBEC CONSTRUCTION INDUSTRY
Part I -- The System of Labour Relations

by Gérard Hébert

SOME EXCERPTS

The Decree System

"This system combines initiative by the parties and government intervention. The relative importance of these two features has varied with time and circumstances. However, while one or the other may dominate, both must be present to some extent. The system thus lies somewhere between two extremes: private collective bargaining, generally based on union certification and the obligation to negotiate locally, and the establishment of labour standards by government, through ordinances or decress." (p. 5)

The Cliche Commission

"... the major contribution of the Cliche Commission appears to have been making those involved in construction, as well as the general public, aware of the abuses practised in the industry for quite some time. The special coverage given the Commission by the newspapers contributed enormously to this result. For the first time, the practices known to and suffered by workers, employers and customers were discussed openly. It remains to be seen whether the effect will be lasting. If so, it will be through the resulting legislation reform." (p. 45)

Government Intervention

"In practically all areas of labour relations, there has been increasing government intervention since passage of Bill 290 and up to the amendments of Bill 47. One intervention always requires another. When the government has intervened to settle one problem, it will have to intervene again to settle another, perhaps because of the measures used to settle the first. Furthermore, the parties get into the habit of not settling their own disputes but turning instead to someone whom they can always blame afterwards, even if this third party only did what they would have done themselves.

"Government intervention does have its advantages, however. To mention only the most obvious, the decree system has guaranteed construction workers good working conditions and fair pay -- excellent pay, in the opinion of many. At the same time, though, it has taken away some freedom previously enjoyed by individuals and groups." (p. 71)

REPRESENTATIVENESS

"Even though the QFL holds its absolute majority by only 0.5 per cent, it has been quick to take advantage of the privileges granted by this majority. The QFL alone gave the notice to bargain and alone prepared the draft for the collective agreement; alone also it steered it through the bargaining process. ... Furthermore, it should be noted that the second-largest group, after the QFL, is not the CNTU but the non-voters. This raises no legal problems but could raise doubts about the real representativeness." (p. 97)

Freedom of Association

"... the most restrictive aspect in the area of freedom of association is the union hiring hall. While the Act forbids all discrimination in hiring for reasons of this nature, if one association has a better-organized hiring hall or one that has been in operation longer than its rival, the members of this association have a clear advantage in seeking and obtaining employment. Membership in this association is therefore much more attractive, if only in this aspect; since employment is a necessity, is the employee really free to choose? In any case, membership in the other association is much less advantageous. If the association thus favoured then attempts to gain a monopoly, it may be very strongly tempted to use its employment service to exert pressure on employers and employees to make membership in this union even more imperative. Thus the question might be raised whether freedom of association is compatible in practice with the existence of union hiring halls." (p. 108)

Centralization of the System

"The centralization was able to guarantee remarkable working conditions to all workers in the construction industry throughout the province. All employees, particularly those in the less-favoured regions, have welcomed the gradual application of wage parity. Furthermore, only a strongly centralized system could make possible a portable social benefits plan for all workers in the industry without exception. Provincial uniformity of trade definitions, of non-monetary and monetary clauses in the decree offers major advantages to employees and employers in that it has removed all problems of boundaries between regions and thus has eased the mobility of employees and firms." (p. 171)